



SOUTH DAKOTA
DEPARTMENT
OF PUBLIC SAFETY

prevention - protection - enforcement

EMERGENCY MANAGEMENT

February 27, 2025

West Central Electric
Kit Talich
PO Box 17
Murdo, SD 57559

Dear Mr. Talich:

The Department of Public Safety has received a copy of your audit report for the year ending in December 2023 which included two audit findings pertinent to the Public Assistance Grants administered through our department. OMB Uniform Guidance 2 CFR §200.521 requires that we must issue a management decision within 6 months of acceptance of the audit report.

Finding 2023-002: The Cooperative does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Management of West Central Electric has decided to rely on and accept the risk of Eide Bailly completing the Schedule of Expenditures of Federal Awards (SEFA). A member of management has been designated to review the drafted financial statements and accompanying notes.

Finding 2023-003: The Cooperative utilized a fringe benefits spreadsheet provided by FEMA and the information was not calculated correctly.

Management acknowledges the use of the fringe benefit calculation form provided by FEMA for all projects. While the correct fringe calculation was entered, an issue occurred with the Excel sheet, which prevented updates across all sections, leading to a calculation error. This caused an overbilling in the amount of \$3,184, which was less than 1 percent of total cost. As discussed, management will ensure that the most current version of the FEMA form is used moving forward. Prior to submission, the form will be thoroughly reviewed and validated to ensure the calculations are correct across all pages.

Our office notified FEMA of this single audit finding since it involved federal funding from their program. FEMA has determined no funding needs to be returned.

Based on our review, it appears you have implemented best practices to address the audit findings and therefore we consider this issue to be resolved. If in the future, you decide to change your procedure please provide us with a copy for our review.

Sincerely,

Dustin Hight
Recovery Branch Chief



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE, SD 57501-5070
(605) 773-3595

RUSSELL A. OLSON
AUDITOR GENERAL

Date: October 17, 2024

To: SD Department of Public Safety
SD State Board of Internal Control

Re: Audit Report on – West Central Electric Cooperative, Inc.
As of and for the year ended December 31, 2023
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit finding(s) and/or questioned cost(s) pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See reference to the finding(s) on page 8 of the federal grant section of the audit report.

Please contact us if you have any questions.

Sincerely,

Russell A. Olson
Auditor General

RAO:sld

Enclosure



Financial Statements

December 31, 2023 and 2022

West Central Electric Cooperative, Inc.

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<u>Name</u>	<u>Position</u>
Shad Riggle	President
Ken Miller	Vice President
Marty Hansen	Secretary-Treasurer
Rich Bendt	Director
Mike McQuiston	Director
Cliff Uthe	Director
Kevin Neuhauser	Director
Paul Patterson	Director
Jim Smith	Director
Jim Willert	Director
Jeff Birkeland	Manager



Independent Auditor's Report

The Board of Directors
West Central Electric Cooperative, Inc.
Murdo, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements West Central Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, equities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of West Central Electric Cooperative, Inc. as of December 31, 2023 and 2022, and the results of its operations and cash flows for the years then ended in conformity 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. 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 West Central Electric Cooperative, Inc. 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 these 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 West Central Electric Cooperative, Inc.'s ability to continue as a going concern for 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 judgment 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 West Central Electric Cooperative, Inc.'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 West Central Electric Cooperative, Inc.'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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 8, 2024 on our consideration of West Central Electric Cooperative, Inc.'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 West Central Electric Cooperative, Inc.'s internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Central Electric Cooperative, Inc.'s internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Rural Utility Service's requirements set forth in 7 CFR Part 1773, we have also issued a report dated April 8, 2024, on our consideration of West Central Electric Cooperative, Inc.'s compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Rural Utility Service's requirements in considering West Central Electric Cooperative, Inc.'s compliance with certain regulatory requirements.

Eide Bailly LLP

Sioux Falls, South Dakota
April 8, 2024

West Central Electric Cooperative, Inc.

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Electric Plant		
In service	\$ 67,231,238	\$ 64,965,110
Under construction	2,118,931	1,483,722
Total electric plant	<u>69,350,169</u>	<u>66,448,832</u>
Less accumulated depreciation	<u>33,231,460</u>	<u>31,996,392</u>
Electric plant, net	<u>36,118,709</u>	<u>34,452,440</u>
Other Noncurrent Assets		
Investments in associated companies	9,297,349	8,840,886
Notes receivable, less current maturities	93,350	58,989
Restricted cash - revenue deferral	<u>1,395,094</u>	<u>950,094</u>
Total other noncurrent assets	<u>10,785,793</u>	<u>9,849,969</u>
Current Assets		
Cash and cash equivalents	696,180	1,968,577
Temporary cash and other investments	6,154,684	6,851,812
Accounts receivable, less allowance for credit losses (2023 - \$155,217; 2022 - \$156,115)	1,575,633	1,817,368
FEMA grant receivable	-	1,700,000
Current maturities of notes receivable	18,200	12,400
Materials and supplies	2,533,872	2,066,362
Prepayments	<u>63,707</u>	<u>80,933</u>
Total current assets	<u>11,042,276</u>	<u>14,497,452</u>
Deferred Debits	<u>14,694</u>	<u>8,205</u>
	<u>\$ 57,961,472</u>	<u>\$ 58,808,066</u>

West Central Electric Cooperative, Inc.

Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Equities and Liabilities		
Equities		
Patronage capital	\$ 15,734,854	\$ 14,972,771
Other equities	7,435,506	7,221,702
Total equities	<u>23,170,360</u>	<u>22,194,473</u>
Long-Term Debt, Less Current Maturities	<u>29,970,521</u>	<u>31,518,492</u>
Current Liabilities		
Current maturities of long-term debt	1,386,000	1,346,000
Accounts payable	715,099	1,205,929
Customer deposits	265,550	254,950
Accrued taxes	309,271	328,525
Other current liabilities	440,730	484,748
Total current liabilities	<u>3,116,650</u>	<u>3,620,152</u>
Deferred Credits	<u>1,703,941</u>	<u>1,474,949</u>
	<u>\$ 57,961,472</u>	<u>\$ 58,808,066</u>

West Central Electric Cooperative, Inc.

Statements of Operations

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Electric	\$ 16,487,909	\$ 17,334,160
Other	415,705	551,389
Total operating revenues	<u>16,903,614</u>	<u>17,885,549</u>
Operating Expenses		
Cost of power	8,376,735	9,076,286
Transmission	200,460	192,917
Distribution - operations	1,963,280	1,573,819
Distribution - maintenance	667,715	770,261
Customer accounts	280,483	288,698
Customer service and informational	359,536	319,657
Administrative and general	1,772,000	1,741,780
Depreciation	1,726,180	1,707,996
Taxes	246,700	250,043
Interest on long-term debt	989,431	983,818
Total operating expenses	<u>16,582,520</u>	<u>16,905,275</u>
Operating Margin Before Capital Credits	321,094	980,274
Generation and Transmission Capital Credits	<u>705,748</u>	<u>1,034,341</u>
Net Operating Margin	<u>1,026,842</u>	<u>2,014,615</u>
Nonoperating Margin (Loss)		
Interest income	467,876	132,243
Other capital credits	40,827	103,461
Loss on disposal of assets	(22,361)	-
Other nonoperating loss	<u>(24,848)</u>	<u>(102,845)</u>
Total nonoperating margin, net	<u>461,494</u>	<u>132,859</u>
Net Margin	<u>\$ 1,488,336</u>	<u>\$ 2,147,474</u>

West Central Electric Cooperative, Inc.
 Statements of Equities
 Years Ended December 31, 2023 and 2022

	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Total</u>
Balance, January 1, 2022	\$ 14,546,548	\$ 6,214,407	\$ 20,760,955
2022 net margin	2,147,474	-	2,147,474
Retirement of capital credits	(843,489)	129,533	(713,956)
Transfer to other equities	<u>(877,762)</u>	<u>877,762</u>	<u>-</u>
Balance, December 31, 2022	14,972,771	7,221,702	22,194,473
2023 net margin	1,488,336	-	1,488,336
Retirement of capital credits	(563,047)	50,598	(512,449)
Transfer to other equities	<u>(163,206)</u>	<u>163,206</u>	<u>-</u>
Balance, December 31, 2023	<u><u>\$ 15,734,854</u></u>	<u><u>\$ 7,435,506</u></u>	<u><u>\$ 23,170,360</u></u>

West Central Electric Cooperative, Inc.

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net margin	\$ 1,488,336	\$ 2,147,474
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation	1,978,270	1,956,814
Generation and transmission capital credits		
Patronage allocation	(746,575)	(1,137,802)
Patronage retirements received	346,404	495,136
Change in revenue deferral	445,000	-
Change in assets and liabilities		
Accounts receivable	241,735	(275,008)
Prepayments	17,226	(28,465)
Deferred debits	(6,489)	(8,205)
Accounts payable	(490,830)	109,897
Customer deposits	10,600	14,887
Accrued taxes	(19,254)	14,042
Other current liabilities	(44,018)	(83,215)
Deferred credits	(216,008)	35,751
Net Cash from Operating Activities	<u>3,004,397</u>	<u>3,241,306</u>
Investing Activities		
Electric plant additions and replacements - net	(3,644,539)	(3,409,012)
Contribution in aid paid back to Transcanada	-	(1,063,183)
FEMA funds received	1,700,000	-
Change in temporary cash investments	693,727	(949,260)
Advances on notes receivable	(60,000)	-
Payments received on notes receivable	19,839	172,161
Change in other investments	(52,891)	76,018
Change in materials and supplies	(467,510)	(494,710)
Net Cash used for Investing Activities	<u>(1,811,374)</u>	<u>(5,667,986)</u>
Financing Activities		
Principal payments on long-term debt	(1,507,971)	(665,317)
Advances on long-term debt	-	5,560,000
Patronage capital retirements	(512,449)	(713,956)
Net Cash (used for) from Financing Activities	<u>(2,020,420)</u>	<u>4,180,727</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	(827,397)	1,754,047
Cash, Cash Equivalents, and Restricted Cash, Beginning of Period	<u>2,918,671</u>	<u>1,164,624</u>
Cash, Cash Equivalents, and Restricted Cash, End of Period	<u>\$ 2,091,274</u>	<u>\$ 2,918,671</u>

West Central Electric Cooperative, Inc.
 Statements of Cash Flows
 Years Ended December 31, 2023 and 2022

	2023	2022
Cash and Cash Equivalents	\$ 696,180	\$ 1,968,577
Restricted Cash	1,395,094	950,094
Total cash, cash equivalents, and restricted cash	\$ 2,091,274	\$ 2,918,671
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest on long-term debt	\$ 989,431	\$ 983,818
Supplemental Disclosure for Noncash Investing Activities		
FEMA grant receivable	\$ -	\$ 1,700,000

Note 1 - Summary of Significant Accounting Policies**General**

West Central Electric Cooperative, Inc. (the Cooperative) is a member owned electric distribution cooperative serving homes, farms and businesses with electric service in Western South Dakota. The Cooperative is subject to the accounting and reporting rules and regulations of Rural Utilities Service (RUS) and follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

Rates charged to customers are established by the Board of Directors.

Electric Plant and Retirements

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

The Cooperative reviews the carrying value of electric plant for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset are less than the carrying value of the asset. Management has determined that no impairment exists at December 31, 2023 and 2022.

Depreciation

Depreciation is computed by applying composite rates to the monthly balance for all classes of utility plant, except for transportation equipment and other general plant assets, which are depreciated using the straight-line method over the estimated useful lives of the assets.

Investments

The Cooperative has investments in associated companies and other investments which are accounted for as equity securities. The Cooperative has determined that these investments do not have a readily determinable fair value. Investments in associated companies are recorded at the Cooperative's share of allocated patronage capital and the other investments are recorded at cost. These investments are assessed for impairment, if any, and adjusted for changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Cooperative has not identified any impairments and there has not been observable price changes during the years ended December 31, 2023 and 2022.

Capital term certificates are a condition of loans from the National Rural Utilities Cooperative Finance Corporation, which is believed by management to have strong credit quality. Capital term certificates are debt securities and are accounted for at amortized cost, net of any impairment or allowances for credit losses. The allowance for credit losses is influenced by a variety of factors, including credit quality and general economic conditions. At December 31, 2023 and 2022, the allowance for credit losses was \$-0-

Cash and Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all cash and investments with an original maturity of three months or less to be cash equivalents.

Receivables and Credit Policy

The Cooperative's revenue contracts provide it with the unconditional right to consideration upon delivery of electricity to its customers; therefore, a receivable is recognized in the period the Cooperative provides energy to its customers. The unconditional right to consideration is represented by contract receivables which are presented on the balance sheets as accounts receivable.

Accounts receivable are un-collateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Unpaid accounts receivable with invoices over 30 days bear a late fee equal to 10% of the current month's charges. The Cooperative requires deposits from customers with poor credit history. Delinquent fees are recognized as income when billed.

The allowance for credit losses is estimated based on historical bad debts and the financial stability of customers with outstanding receivables. Management considers the following factors when determining the collectability of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment term. Additionally, management has determined that the current and reasonable and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes. The allowance for credit losses was \$155,217 and \$156,115 at December 31, 2023 and 2022, respectively.

Changes in the allowance for credit losses for receivables are as follows for the years ended December 31:

	2023	2022
Opening allowance for credit losses	\$ 156,115	\$ 146,649
Provision for credit losses and other adjustments	11,275	21,648
Charge-offs	(12,173)	(12,182)
	<u>\$ 155,217</u>	<u>\$ 156,115</u>

The beginning and end balances for customer accounts receivable, net of allowance for credit losses, and customer contract liabilities were as follows for the years ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022	January 1, 2022
Accounts receivable	\$ 1,575,633	\$ 1,817,368	\$ 1,542,360
Customer deposits - contract liability	\$ 265,550	\$ 254,950	\$ 240,063
Customer prepayments - contract liability	\$ -	\$ -	\$ 1,063,183

Notes Receivable

Notes receivable represents economic development loans to businesses in the Cooperative's service area. Notes receivable are reported at the amount the Cooperative expects to collect on balances outstanding at year-end. Interest on loans is recognized over the term of the note.

Management considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that may affect the borrower's ability to repay, and current economic conditions in arriving at an allowance for unknown and inherent losses. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available. Any losses on such notes are charged against the related equity from grants received to fund the loan program. As of December 31, 2023 and 2022, there was no allowance for credit losses.

Materials and Supplies

Materials and supplies are stated at the lower of average cost or market, except for inventory held for resale which is stated at the lower of actual cost or net realizable value.

Patronage Capital

Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Cooperative from its operations in excess of costs and expenses are also allocated to its patrons on a patronage basis or transferred to permanent equity at the discretion of the board of directors.

Revenue Recognition

The following table depicts revenues by timing of revenue recognition and type of revenue for the years ended December 31, 2023 and 2022, respectively:

	<u>2023</u>	<u>2022</u>
Electric revenues (transferred over time)	\$ 16,932,909	\$ 17,334,160
Merchandising revenues (transferred at a point in time)	<u>42,396</u>	<u>32,456</u>
Revenue from contracts with customers	<u>16,975,305</u>	<u>17,366,616</u>
Other revenues	<u>(29,295)</u>	<u>551,389</u>
Total revenues	<u>\$ 16,946,010</u>	<u>\$ 17,918,005</u>

Electric Revenue

The Cooperative's performance obligation related to the sale of energy is satisfied as energy is delivered to customers; therefore, revenue from the delivery of energy is recognized over time as energy is delivered to the customers. The Cooperative reads meters on the last day of each month; accordingly, revenue is recorded through the end of each accounting period. The amount included above is exclusive of deferred revenues recognized in 2023 and 2022 of \$445,000 and \$-0-, respectively.

Merchandising Revenue

The Cooperative's performance obligation related to merchandising and electrical services are satisfied at the point in time when projects have been completed; therefore, revenue is recorded upon the completion of the service.

Other Revenues

Other revenues consist of the revenue impact due to changes in regulatory revenue deferrals disclosed in Note 11, lease revenue and late payment charges on receivables.

Cost of Power

Monthly billings from the wholesale supplier for power costs included all power delivered to the Cooperative. Power costs are recorded through the balance sheet date.

Pension Costs

The policy is to fund normal pension costs accrued.

Accounting Estimates

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

Business Credit Risk

The Cooperative provides electrical service on account to its members that are located primarily in a five-county area in west central South Dakota.

The Cooperative maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2023 and 2022, the Cooperative had approximately \$776,000 and \$2,068,000, respectively, in excess of FDIC-insured limits.

Sales Taxes

The Cooperative has customers in South Dakota and its municipalities in which those governmental units impose a sales tax on certain sales. The Cooperative collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Income Taxes

The Cooperative is exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code and is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

The Cooperative believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Cooperative would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such interest and penalties are incurred.

Adoption of New Accounting Standard

As of January 1, 2023, the Cooperative adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables, and held to maturity debt securities. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The update also requires that credit losses on available-for-sale debt securities be presented as an allowance rather than a write-down of the security. This standard provides financial statement users with more decision useful information about the expected losses on financial instruments.

The Cooperative adopted ASU 2016-13 using the modified retrospective review method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2023, are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of the new standard did not have a material impact the Cooperative's Statements of Operations or Statements of Cash Flows.

Subsequent Events

The Cooperative has evaluated subsequent events through April 8, 2024, the date which the financial statements were available to be issued.

Note 2 - Electric Plant and Depreciation

	Depreciation Rates	2023	2022
Transmission plant	2.75%	\$ 7,307,719	\$ 7,223,463
Distribution plant	2.40% - 6.67%	51,569,889	49,667,720
General plant	2.00% - 33.00%	8,343,377	8,063,674
Plant leased to others	3.15%	3,593	3,593
Intangible plant		6,660	6,660
Electric plant in service		67,231,238	64,965,110
Construction work in progress		2,118,931	1,483,722
		<u>\$ 69,350,169</u>	<u>\$ 66,448,832</u>
Total electric plant		<u>\$ 69,350,169</u>	<u>\$ 66,448,832</u>

West Central Electric Cooperative, Inc.

Notes to Financial Statements

December 31, 2023 and 2022

Note 3 - Investments in Associated Companies

	<u>2023</u>	<u>2022</u>
Rushmore Electric Power Cooperative, Inc.		
Patronage capital credits	\$ 7,848,215	\$ 7,474,365
Membership	100	100
	<u>7,848,315</u>	<u>7,474,465</u>
Basin Electric Power Cooperative		
Membership	<u>100</u>	<u>100</u>
Rural Electric Supply Cooperative		
Common stock	5,000	5,000
Preferred stock and patronage capital	109,327	87,304
	<u>114,327</u>	<u>92,304</u>
National Information Solutions Cooperative		
Patronage capital credits	<u>71,978</u>	<u>65,494</u>
Federated Rural Electric Insurance Corporation		
Equity allocation	<u>297,531</u>	<u>300,536</u>
National Rural Utilities Cooperative Finance Corporation		
Capital term certificates		
Maturity dates and interest rates		
10/01/2085 - 5%	144,030	144,030
10/01/2085 - 3 - 4%	152,653	152,653
10/01/2117 - 3%	7,562	7,562
01/01/2025 - 0%	1,677	1,677
01/01/2037 - 0%	11,200	11,200
Total capital term certificates	<u>317,122</u>	<u>317,122</u>
Member capital securities (5%, matures 5/26/2044)		
callable upon notification on May 27, 2024 or later	200,000	200,000
Patronage capital	104,792	108,709
Membership	1,000	1,000
	<u>622,914</u>	<u>626,831</u>
Other memberships and allocations	<u>342,184</u>	<u>281,156</u>
Total investments in associated companies	<u>\$ 9,297,349</u>	<u>\$ 8,840,886</u>

Note 4 - Notes Receivable

	<u>2023</u>	<u>2022</u>
Economic Development Loans		
Philip Volunteer Fire Department; 1% interest, paid in annual installments of \$7,391 through July 2029	\$ 25,442	\$ 39,726
Reliance Volunteer Fire Department; 1% interest, paid in annual installments of \$4,223 through August 2029	24,476	28,415
Murdo Golf Course; 1% interest, paid in annual installments of \$1,648 through September 2024	1,632	3,248
Milesville Fire Department; 1% interest, paid in annual installments of \$6,335 through September 2033	60,000	-
	<u>111,550</u>	<u>71,389</u>
Less current maturities	<u>(18,200)</u>	<u>(12,400)</u>
Total notes receivable	<u>\$ 93,350</u>	<u>\$ 58,989</u>

Note 5 - Cash and Cash Equivalents

	<u>2023</u>	<u>2022</u>
Cash on hand	\$ 340	\$ 340
Cash in checking	695,840	86,641
Basin commercial paper notes	-	2,831,690
	<u>696,180</u>	<u>2,918,671</u>
Less restricted cash - deferred revenue	-	(950,094)
Total cash and cash equivalents	<u>\$ 696,180</u>	<u>\$ 1,968,577</u>

Basin commercial paper notes included in cash and cash equivalents include the notes with original maturities of less than three months.

Note 6 - Temporary Cash Investments

	<u>2023</u>	<u>2022</u>
Certificate of deposit and other investment	\$ 29,571	\$ 208,627
Basin commercial paper notes	7,520,207	6,643,185
	<u>7,549,778</u>	<u>6,851,812</u>
Less restricted cash - deferred revenue	<u>(1,395,094)</u>	<u>-</u>
Total temporary cash investments	<u>\$ 6,154,684</u>	<u>\$ 6,851,812</u>

Basin commercial paper notes have interest rates ranging from 5.55% to 5.95% and mature March 2024 through December 2024.

Note 7 - Deferred Debits

	<u>2023</u>	<u>2022</u>
Work plan costs	\$ 14,694	\$ 8,205

Note 8 - Patronage Capital

	<u>2023</u>	<u>2022</u>
Assignable	\$ 1,488,336	\$ 2,147,474
Assigned to date	33,666,420	31,682,152
Total	<u>35,154,756</u>	<u>33,829,626</u>
Retired to date	<u>19,419,902</u>	<u>18,856,855</u>
Balance	<u>\$ 15,734,854</u>	<u>\$ 14,972,771</u>

The mortgage provisions restrict the retirement of patronage capital, without RUS approval, unless after retirement, the capital of the Cooperative equals at least 30% of the total assets of the Cooperative, or that retirements can be made if such distributions do not exceed 25% of the preceding year's margins if equity is above 20%. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes or, if after giving effect to the distribution, the Cooperative's current and accrued assets would be less than its current and accrued liabilities.

Note 9 - Other Equities

	<u>2023</u>	<u>2022</u>
Retired capital credits - gain	\$ 1,221,956	\$ 1,171,358
Unallocated margins	<u>6,213,550</u>	<u>6,050,344</u>
Total other equities	<u>\$ 7,435,506</u>	<u>\$ 7,221,702</u>

Note 10 - Long - Term Debt

	<u>2023</u>	<u>2022</u>
Rural Utilities Service (RUS)		
Adjustable rate notes (2.375 - 4.000%) due in monthly installments through 2031	\$ 1,635,907	\$ 1,825,236
Fixed rate notes (4.125 - 4.375%) due in monthly installments through 2037	2,876,645	3,037,284
Advanced payments at 4.72% as of December 31, 2023	<u>(1,038,809)</u>	<u>(983,669)</u>
	<u>3,473,743</u>	<u>3,878,851</u>
Federal Financing Bank (FFB)		
Fixed rate notes (2.715 - 4.489%) due in quarterly installments through 2042	5,872,810	6,093,172
Fixed rate notes (2.735 - 2.741%) due in quarterly installments through 2037	1,295,494	1,370,534
Fixed rate notes (2.054 - 2.868%) due in quarterly installments through 2046	8,229,458	8,485,645
Fixed rate notes (0.869 - 3.112%) due in quarterly installments through 2052	<u>11,161,751</u>	<u>11,441,343</u>
	<u>26,559,513</u>	<u>27,390,694</u>
National Rural Utilities Cooperative Finance Corporation (CFC)		
Fixed rate notes (3.42 - 6.03%) due in quarterly installments through 2037	640,664	707,750
Fixed rate notes (4.55 - 4.70%) due in quarterly installments through 2026	<u>337,291</u>	<u>541,887</u>
	<u>977,955</u>	<u>1,249,637</u>
RUS Rural Development Loans, 0% - 1%	<u>345,310</u>	<u>345,310</u>
Total long-term debt	31,356,521	32,864,492
Less current maturities	<u>(1,386,000)</u>	<u>(1,346,000)</u>
Long-term debt, less current maturities	<u>\$ 29,970,521</u>	<u>\$ 31,518,492</u>

Substantially all assets are pledged as security on the mortgage notes. Additionally, mortgage agreements contain certain financial and other covenants including restrictions on capital credit retirements. Management believes the Cooperative is in compliance with all debt covenants as of December 31, 2023 and 2022.

All loan funds advanced by RUS and FFB are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by the respective agencies. There were no unadvanced loan funds to the Cooperative as of December 31, 2023.

It is estimated that principal repayments on the above debt for the next five years will be as follows:

<u>Years Ended December 31,</u>	
2024	\$ 1,386,000
2025	1,502,000
2026	1,381,000
2027	1,378,000
2028	1,411,000

Note 11 - Deferred Credits

	<u>2023</u>	<u>2022</u>
Electric revenue deferral	\$ 1,395,094	\$ 950,094
Customer advances for construction	67,334	168,946
Other	<u>241,513</u>	<u>355,909</u>
Total deferred credits	<u>\$ 1,703,941</u>	<u>\$ 1,474,949</u>

As part of its ratemaking process, the Cooperative has adopted a revenue deferral plan with the approval of RUS and the Board of Directors. The plan requires the recognition of the deferred revenue no later than 2032. During the years ended December 31, 2023 and 2022, \$-0- of deferred revenue was recognized into revenue under this plan and an additional \$445,000 was deferred for the year ended December 31, 2023.

Note 12 - Pension Plan

Pension Plan

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is a defined benefit pension plan intended to be qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Plan is a multiemployer plan under accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer 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.

The Cooperative's contributions to the RS Plan in 2023 and 2022 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made normal contributions to the plan of approximately \$505,000 and \$500,000 in 2023 and 2022, 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 percent funded on January 1, 2023 and 2022 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.

Defined Contribution Plan

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. This plan is offered through NRECA. The Cooperative made a matching contribution of up to 5.0% of each employee's base wages in this plan in 2023 and 2022. The Cooperative made contributions of approximately \$131,000 and \$131,400 in 2023 and 2022, respectively.

Note 13 - Line-of-Credit Agreements

An unsecured perpetual line-of-credit has been executed with the National Rural Utilities Cooperative Finance Corporation providing the Cooperative with short-term loans in the total amount of \$3,000,000 on a revolving basis. Interest on unpaid principal is payable quarterly at rates established by CFC, which are not to exceed the lowest prime rate as published in the “Money Rates” column of “The Wall Street Journal” plus 1% per annum (7.25% at December 31, 2023). The Cooperative had no outstanding balances on this line-of-credit at December 31, 2023 and 2022.

An unsecured line-of-credit has been executed with the CoBank, providing the Cooperative with short-term loans in the total amount of \$1,000,000. The line-of-credit matures on December 31, 2024. The interest rate on the line of credit was 7.41% on December 31, 2023. The Cooperative had no outstanding balances on this line-of-credit at December 31, 2023 and 2022.

Note 14 - Commitments and Contingencies

Wholesale Power Agreement

The Cooperative is committed under a long-term wholesale power agreement whereby it is to purchase its electric power and energy requirements from Rushmore Electric Power Cooperative, Inc. until December 31, 2075. The rates paid are subject to periodic review.

Note 15 - Related Party Transactions

The Cooperative is a member of and purchases its wholesale power from Rushmore Electric Power Cooperative, Inc. Following is a summary of material transactions with Rushmore Electric Power Cooperative, Inc. for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Purchase of wholesale power	\$ 8,376,735	\$ 9,076,286
Accounts payable for purchased power at December 31	\$ 705,620	\$ 989,189
Capital credit allocation received (current year)	\$ 705,748	\$ 1,034,341
Capital credit allocation retired (current year)	\$ 331,898	\$ 466,862
Patronage capital balance at December 31	\$ 7,848,215	\$ 7,474,365

Note 16 - FEMA Grant

During 2022, the Cooperative incurred significant damage to its electric distribution system as the result of a severe storm. The Cooperative was approved to receive Federal Management Agency (FEMA) disaster grants, to restore the system to its pre-storm condition. Approximately 75% of the eligible construction and retirement costs of these projects are reimbursed through FEMA and 10% of eligible construction and retirement costs of these projects are reimbursed by the state of South Dakota. The Cooperative had a FEMA receivable balance for the amounts expected to be reimbursed by FEMA and the State of South Dakota related to storm damage costs incurred of \$1,700,000 for the year ended December 31, 2022. Funds were received as of December 31, 2023.



**Independent Auditor’s Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
West Central Electric Cooperative, Inc.
Murdo, South Dakota

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 West Central Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2023, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered West Central Electric Cooperative, Inc.’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 West Central 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Audit Findings as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Central Electric Cooperative, Inc.'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*.

West Central Electric Cooperative, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on West Central Electric Cooperative, Inc.'s response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings. West Central Electric Cooperative, Inc.' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Cooperative'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 Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Sioux Falls, South Dakota
April 8, 2024

Finding 2023-001 – Financial Reporting

Criteria: Proper controls over financial reporting include the ability to prepare financial statements with accompanying notes to the financial statements that are materially correct and include all required disclosures.

Condition: The Cooperative does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Cooperative has limited staff. They cannot justify incurring the costs necessary for preparing the financial statements with accompanying notes to the financial statements.

Effect: Inadequate controls over financial reporting of the Cooperative could result in the likelihood that the Cooperative would not be able to draft the financial statements with accompanying notes to the financial statements without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes.

Management's Response: Since it is not cost effective for an organization of our size to prepare audit ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our full disclosure financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.



Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

The Board of Directors
West Central Electric Cooperative, Inc.
Murdo, South Dakota

We have audited, in accordance with 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 West Central Electric Cooperative, Inc. (Cooperative), which comprise the balance sheet as of December 31, 2023, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2024, 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 and recommendations 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, except as noted below, 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 of 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*); and
- Comply with the requirements for the detailed schedule of deferred debits and deferred credits.

Detailed Schedule of Deferred Debits and Deferred Credits

	<u>2023</u>	<u>2022</u>
Deferred debits		
Work plan costs	\$ 14,694	\$ 8,205
Deferred credits		
Electric revenue deferral	\$ 1,395,094	\$ 950,094
Customer advances for construction	67,334	168,946
Other	241,513	355,909
	<u>\$ 1,703,941</u>	<u>\$ 1,474,949</u>

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

Eide Bailly LLP

Sioux Falls, South Dakota
April 8, 2024



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2023

West Central Electric Cooperative, Inc.

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 1

Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 3

Schedule of Expenditures of Federal Awards 7

Schedule of Findings and Questioned Costs 8



**Independent Auditor’s Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors
West Central Electric Cooperative, Inc.
Murdo, South Dakota

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 (*Government Auditing Standards*), the financial statements of West Central Electric Cooperative, Inc., which comprise the balance sheet as of December 31, 2023, and the related statements of operations, equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered West Central Electric Cooperative, Inc.’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 West Central Electric Cooperative, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of West Central Electric Cooperative, Inc.’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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Central Electric Cooperative, Inc.'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*.

West Central Electric Cooperative, Inc.'s Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on West Central Electric Cooperative, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. West Central Electric Cooperative, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 West Central Electric Cooperative, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Central Electric Cooperative, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sioux Falls, South Dakota
April 8, 2024



**Independent Auditor’s Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

To the Board of Directors
West Central Electric Cooperative, Inc.
Murdo, South Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited West Central Electric Cooperative, Inc.’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on West Central Electric Cooperative, Inc.’s major federal program for the year ended December 31, 2023. West Central Electric Cooperative, Inc.’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, West Central Electric Cooperative, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on West Central Electric Cooperative, Inc.’s major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of West Central Electric Cooperative, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of West Central Electric Cooperative, Inc.’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to West Central Electric Cooperative, Inc.'s federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on West Central Electric Cooperative, Inc.'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about West Central Electric Cooperative, Inc.'s compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 West Central Electric Cooperative, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of West Central Electric Cooperative, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of West Central Electric Cooperative, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on West Central Electric Cooperative, Inc.'s response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. West Central Electric Cooperative, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of West Central Electric Cooperative, Inc. as of and for the year ended December 31, 2023, and have issued our report thereon dated April 8, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Sully LLP

Sioux Falls, South Dakota

September 4, 2024, except for our report on the schedule of expenditures of federal awards, for which the date is April 8, 2024.

West Central Electric Cooperative, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of Homeland Security Passed through State of South Dakota Office of Emergency Management Disaster Grants - Public Assistance	 97.036	DR-4664-SD; Project Worksheet 17, 20, 22, 23, 24, 27; DR-4440- SD; Project Worksheet 1418.1	 <u>\$ 1,338,693</u>
Total Federal Financial Assistance			<u><u>\$ 1,338,693</u></u>

Note 1 – Basis of Presentation

The schedule of expenditures of federal awards (the schedule) includes the federal award activity of West Central Electric Cooperative, Inc. under programs of the federal government for the year ended December 31, 2023. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of West Central Electric Cooperative, Inc., it is not intended to and does not present the financial position, changes in members' equity, and cash flows of West Central Electric Cooperative, Inc.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

West Central Electric Cooperative, Inc. has not elected to use the 10% de minimis cost rate.

Note 4 – Disaster Grants – Public Assistance

Per the *OMB Compliance Supplement*, nonfederal entities must record expenditures on the schedule of expenditures of federal awards when FEMA has approved the entity's project worksheet. The expenditures included in the schedule were incurred in prior fiscal years. These expenditures were approved for payment by the federal agency in 2023 and therefore are included in the schedule when approved.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Disaster Grants - Public Assistance	97.036
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2023-001 Financial Reporting
Significant Deficiency**

Criteria: Proper controls over financial reporting include the ability to prepare financial statements with accompanying notes to the financial statements that are materially correct and include all required disclosures.

Condition: The Cooperative does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Cooperative has limited staff. They cannot justify incurring the costs necessary for preparing the financial statements with accompanying notes to the financial statements.

Effect: Inadequate controls over financial reporting of the Cooperative could result in the likelihood that the Cooperative would not be able to draft the financial statements with accompanying notes to the financial statements without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes.

Views of Responsible Officials: Since it is not cost effective for an organization of our size to prepare audit ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our full disclosure financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.

Section III – Federal Award Findings and Questioned Costs

2023-002 **Department of Homeland Security, State of South Dakota Office of Emergency Management, 97.036, FEMA-DR-4664-SD, FEMA-DR-4440-SD
Disaster Grants – Public Assistance**

**Preparation of the Schedule of Expenditures of Federal Awards
Material Weakness in Internal Control over Compliance**

Criteria: Proper controls over financial reporting include a system designed to prepare the schedule of expenditures of federal awards (the schedule) and the accompanying notes to the schedule.

Condition: The Cooperative does not have an internal control system designed to provide for a complete and accurate schedule of federal expenditures of federal awards being audited. As auditors, we were requested to assist with the preparation of the schedule and accompanying notes to the schedule.

Cause: Auditor assistance with preparation of the schedule is not unusual as the schedule has unique and specialized requirements and preparation is only required when the Cooperative meets a specified threshold of federal expenditures.

Effect: There is a reasonable possibility that the Cooperative would not be able to draft a complete and accurate schedule.

Questioned Costs: None reported.

Context/Sampling: Sampling was not used.

Repeat Finding form Prior Year: No

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Cooperative is aware of this condition for financial reporting requirements relating to the Cooperative's schedule of expenditures of federal awards and the internal controls that impact financial reporting.

Views of Responsible Officials: Management agrees with the finding.

2023-003 **Department of Homeland Security, State of South Dakota Office of Emergency Management, 97.036, FEMA-DR-4664-SD, FEMA-DR-4440-SD
Disaster Grants – Public Assistance**

**Material Weakness in Internal Control over Compliance
Activities Allowed or Unallowed, Allowable Costs and Cost Principles**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: The Cooperative utilized a fringe benefits spreadsheet provided by FEMA and the information was not calculated correctly.

Cause: The Cooperative did not formally review the spreadsheet to ensure information was accurate and up to date.

Effect: There is a reasonable possibility that the Cooperative could have failed to identify any errors located within the fringe benefit spreadsheet.

Questioned Costs: No questioned costs over \$25,000.

Context/Sampling: A nonstatistical sample of 60 transactions were selected for testing, which accounted for \$1,063,076 out of \$1,784,924 total federal program expenditures of which \$1,338,693 were submitted for reimbursement.

Repeat Finding form Prior Year: No

Recommendation: We recommend the Cooperative review procedures surrounding fringe benefits to ensure the process includes a formal review of the spreadsheets prior to submission to the federal agency.

Views of Responsible Officials: Management agrees with the finding.



A Touchstone Energy® Cooperative



PO Box 17
204 Main St.
Murdo SD 57559

Phone (605) 669-8100 or 1-800-242-9232
Fax (605) 669-2358 Email wcec@wce.coop

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2023

Prepared by Management of
West Central Electric Cooperative, Inc.

This institution is an equal opportunity provider and employer.

MANAGEMENT STAFF

Jeff Birkeland – CEO

Scott Kittelson – Operations Manager

Jessie Tucker – Member Services Director

Jill Rankin – Finance Manager

Summary of Prior Year Audit Findings

Yellow Book

Finding: 2022-001

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: The Cooperative does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. We requested our auditors to draft the financial statements and accompanying notes to the financial statements.

Status: Ongoing. See similar finding 2023-001.

Single Audit

No single audit findings to report in prior year.

This institution is an equal opportunity provider and employer.

MANAGEMENT STAFF

Jeff Birkeland – *CEO*

Scott Kittelson – *Operations Manager*

Jessie Tucker – *Member Services Director*

Jill Rankin – *Finance Manager*

Corrective Action Plan

Yellow Book

Finding: 2023-001

Finding Summary: The Cooperative does not have an internal control system designed to provide for the preparation of the full disclosure financial statements being audited. We requested our auditors to draft the financial statements and accompanying notes to the financial statements.

Responsible Individuals: Jeff Birkeland, CEO

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes to the financial statements. We requested that our auditors, Eide Bailly, LLP, prepare the full disclosure financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes.

Anticipated Completion Date: Ongoing

Federal Award Findings

Finding 2023-002

Federal Agency Name: Department of Homeland Security
Program Name: Disaster Grants – Public Assistance
Federal Financial Assistance Listing #97.036

Finding Summary: The Cooperative does not have an internal control system designed to provide for a complete and accurate schedule of federal expenditures of federal awards being audited. We requested our auditors to assist with the preparation of the schedule and accompanying notes to the schedule.

Responsible Individuals: Jeff Birkeland, CEO

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the schedule. We requested that our auditors, Eide Bailly, LLP, prepare the schedule as a part of their single audit.

Anticipated Completion Date: Ongoing

Finding 2023-003

Federal Agency Name: Department of Homeland Security
Program Name: Disaster Grants – Public Assistance
Federal Financial Assistance Listing #97.036

Finding Summary: The Cooperative utilized a fringe benefit spreadsheet provided by FEMA where the information was not calculated correctly.

This institution is an equal opportunity provider and employer.

MANAGEMENT STAFF

Jeff Birkeland – CEO

Scott Kittelson – Operations Manager

Jessie Tucker – Member Services Director

Jill Rankin – Finance Manager

Responsible Individuals: Jeff Birkeland, CEO

Corrective Action Plan:

The spreadsheet we received from FEMA was protected and we could not verify formulas or make changes. We assumed the spreadsheet to work correctly. Through the audit, however, we found that there is an error in a formula(s) having to do with overheads. We will ensure we are using the most up-to-date spreadsheet for fringe benefits on FEMA projects going forward.

Anticipated Completion Date: This has been resolved and Steph went back through and updated the spreadsheets accordingly in August 2024

This institution is an equal opportunity provider and employer.

MANAGEMENT STAFF

Jeff Birkeland – *CEO*

Scott Kittelson – *Operations Manager*

Jessie Tucker – *Member Services Director*

Jill Rankin – *Finance Manager*