

WEST CENTRAL AG SERVICES

ULEN, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

OFFICERS AND DIRECTORS

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Jim Amundson Vice President

Brian Olek.Secretary

Dwight Heitman Director

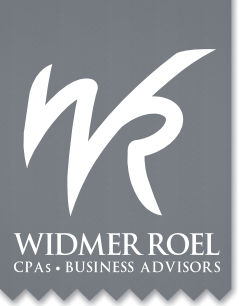
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Central Ag Services
Ulen, Minnesota

Opinion

We have audited the financial statements of **West Central Ag Services** (a Cooperative), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, changes in patrons' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **West Central Ag Services** as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **West Central Ag Services** 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 of the financial statements, **West Central Ag Services** adopted new accounting guidance by implementing the provisions of Financial Accounting Standards Board ("FASB") ASC No. 326, *Current Expected Credit Losses*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **West Central Ag Services'** ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **West Central Ag Services'** 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 Ag Services'** 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.



Fargo, North Dakota
March 12, 2024

WEST CENTRAL AG SERVICES

**BALANCE SHEETS
DECEMBER 31, 2023 AND 2022**

ASSETS	2023	2022
CURRENT ASSETS		
Cash and cash equivalents		
Cash on hand and in banks	\$ 6,181,057	\$ 9,820,697
Money market mutual fund	82,234,415	19,648,458
	88,415,472	29,469,155
Receivables		
Trade accounts receivable, net of allowance for credit losses	10,446,217	12,238,205
Grain receivable, net of advances	2,115,110	18,295,349
Margin deposits	1,439,389	8,315,369
Patron advances	7,338,894	2,752,808
Grower advantage, net of allowance for credit losses	35,806,431	24,987,908
Other receivables	3,887,370	2,374,277
	61,033,411	68,963,916
Inventory		
Grain inventory	104,597,738	121,446,711
Merchandise inventories, at net realizable value, principally first in, first out, or market	124,048,579	129,171,772
	228,646,317	250,618,483
Prepaid expenses		
Prepaid income taxes	3,870	-
Prepaid expense	1,197,955	739,852
	1,201,825	739,852
Total current assets	379,297,025	349,791,406
OTHER ASSETS		
Investment in other cooperatives	24,393,712	25,454,043
Investment in Alton Agronomy, LLC	658,223	658,223
Investment in Central Plains Ag Services, LLC	13,785,268	12,415,079
Operating lease right of use assets	826,320	919,801
	39,663,523	39,447,146
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	4,202,829	4,202,829
Buildings and equipment	166,569,422	164,629,100
Finance lease right of use assets	25,545,288	23,841,134
New construction	5,978,572	609,094
	202,296,111	193,282,157
Accumulated depreciation	(106,285,405)	(97,513,648)
	96,010,706	95,768,509
Total assets	\$ 514,971,254	\$ 485,007,061

LIABILITIES AND PATRONS' EQUITY	2023	2022
CURRENT LIABILITIES		
Notes and contracts payable		
Deferred payment contracts	\$ 70,063,767	\$ 70,412,240
Grain payable	122,358,890	123,300,980
Current maturities of long-term operating lease liabilities	193,968	-
Current maturities of long-term finance lease liabilities	2,109,934	2,032,588
	<u>194,726,559</u>	<u>195,745,808</u>
Accounts payable		
Accounts payable	27,590,490	19,451,799
Patrons credit balances	60,081,828	53,672,058
Patronage dividends payable	9,064,992	4,282,290
Other accounts payable	307,146	501,937
	<u>97,044,456</u>	<u>77,908,084</u>
Taxes and expenses accrued or payable		
Other accrued expenses	112,000	112,000
Income taxes payable	836,991	532,200
Grain, sales and payroll taxes payable	1,311,312	1,162,210
Property tax payable	117,951	115,505
	<u>2,378,254</u>	<u>1,921,915</u>
 Total current liabilities	 <u>294,149,269</u>	 <u>275,575,807</u>
LONG-TERM LIABILITIES		
Long-term debt	708,147	14,994,057
Long-term operating lease right of use liabilities	826,320	919,801
Long-term finance lease right of use liabilities	12,600,537	13,426,117
Deferred tax liability	2,149,606	2,052,325
	<u>16,284,610</u>	<u>31,392,300</u>
Less current maturities listed above	<u>(2,303,902)</u>	<u>(2,032,588)</u>
Total long-term liabilities	<u>13,980,708</u>	<u>29,359,712</u>
 Total liabilities	 <u>308,129,977</u>	 <u>304,935,519</u>
PATRONS' EQUITY		
Local patrons' credits	68,352,676	56,398,726
Regional patrons' credits	19,488,599	20,010,534
Unallocated capital reserve	119,000,002	103,662,282
Total patrons' equity	<u>206,841,277</u>	<u>180,071,542</u>
 Total liabilities and patrons' equity	 <u>\$ 514,971,254</u>	 <u>\$ 485,007,061</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
SALES		
Grain	\$ 557,346,539	\$ 524,570,004
Merchandise	209,893,686	189,220,266
Total sales	<u>767,240,225</u>	<u>713,790,270</u>
 COST OF SALES		
Grain	529,340,600	501,549,238
Merchandise	171,507,164	156,043,708
Total cost of sales	<u>700,847,764</u>	<u>657,592,946</u>
 Gross profit on sales	<u>66,392,461</u>	<u>56,197,324</u>
 OTHER PROCEEDS (EXPENSE)		
Finance charges and interest	4,652,065	1,461,587
Freight and delivery income	3,247,927	2,498,355
Drying income	2,576,558	1,624,092
Partnership income (loss)	2,311,145	(448,223)
Patron and other services	1,972,871	1,959,076
Storage and handling	1,688,713	847,359
Gain on disposal of property, plant and equipment	306,124	193,500
Credit loss provision	(120,000)	-
Total other proceeds	<u>16,635,403</u>	<u>8,135,746</u>
 Gross operating proceeds	<u>83,027,864</u>	<u>64,333,070</u>
 EXPENSES		
Operating expenses	37,561,403	34,263,656
Depreciation	8,520,161	7,948,157
Amortization	1,480,557	1,476,727
Interest	775,410	2,818,490
Total expenses	<u>48,337,531</u>	<u>46,507,030</u>
 LOCAL NET INCOME	34,690,333	17,826,040
PATRONAGE FROM OTHER COOPERATIVES, net	<u>8,478,777</u>	<u>2,562,728</u>
 NET INCOME BEFORE INCOME TAX	43,169,110	20,388,768
INCOME TAX PROVISION	<u>1,920,493</u>	<u>1,709,711</u>
 NET INCOME	<u>\$ 41,248,617</u>	<u>\$ 18,679,057</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF CHANGES IN PATRONS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>Local Patrons' Credits</u>	<u>Regional Patrons' Credits</u>	<u>Unallocated Capital Reserve</u>	<u>Total</u>
Balance, December 31, 2021	\$ 52,656,602	\$ 20,308,392	\$ 97,218,342	\$ 170,183,336
Redemption of patrons' equity	(4,210,703)	(297,858)	-	(4,508,561)
Cash patronage dividends	(4,282,290)	-	-	(4,282,290)
Net income	<u>12,235,117</u>	<u>-</u>	<u>6,443,940</u>	<u>18,679,057</u>
Balance, December 31, 2022	56,398,726	20,010,534	103,662,282	180,071,542
Adjustment to prior year estimated patronage allocation	(12,208)	-	(10,916)	(23,124)
Redemption of patrons' equity	(4,868,831)	(521,935)	-	(5,390,766)
Cash patronage dividends	(9,064,992)	-	-	(9,064,992)
Net income	<u>25,899,981</u>	<u>-</u>	<u>15,348,636</u>	<u>41,248,617</u>
Balance, December 31, 2023	<u>\$ 68,352,676</u>	<u>\$ 19,488,599</u>	<u>\$ 119,000,002</u>	<u>\$ 206,841,277</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 41,248,617	\$ 18,679,057
Adjustments to reconcile net income to net cash provided by operating activities		
Credit loss provision	120,000	-
Depreciation and amortization	10,000,718	9,424,884
Patronage refunds received in the form of allocations, net	(3,170,301)	(330,498)
Gain on disposal of property, plant and equipment	(306,124)	(193,500)
Partnership loss (income)	(2,311,145)	722,291
Allocation adjustments and equity cancelations	(23,124)	-
Changes in assets and liabilities		
Receivables	18,729,028	(9,826,019)
Inventory	21,972,166	(22,456,051)
Prepaid expenses	(461,973)	(179,604)
Notes and contracts payable	(1,290,563)	36,952,800
Accounts payable	14,353,670	3,220,595
Taxes and expenses accrued or payable	456,339	563,478
Deferred tax liability	97,281	265,765
	<u>99,414,589</u>	<u>36,843,198</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from retirement of equity held in other cooperatives	4,230,632	381,781
Grower advantage loans	(10,918,523)	(493,103)
Distributions received from partnerships	940,956	-
Proceeds from disposal of property, plant and equipment	578,059	242,208
Capital expenditures	<u>(8,927,696)</u>	<u>(6,712,119)</u>
	<u>(14,096,572)</u>	<u>(6,581,233)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	27,659,811	33,316,238
Payment on long-term debt	(41,945,722)	(24,001,710)
Payments on long-term leases	(2,412,733)	(2,065,827)
Cash portion of patronage allocation, prior year	(4,282,290)	(5,680,426)
Redemption of patrons' equity	<u>(5,390,766)</u>	<u>(4,508,561)</u>
	<u>(26,371,700)</u>	<u>(2,940,286)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	58,946,317	27,321,679
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>29,469,155</u>	<u>2,147,476</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 88,415,472</u>	<u>\$ 29,469,155</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest - debt	\$ 275,494	\$ 2,381,094
Cash paid for interest - leases	499,916	437,396
	<u>\$ 775,410</u>	<u>\$ 2,818,490</u>
 Cash paid for income taxes, net	 \$ 1,522,291	 \$ 1,024,980
 Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 97,060	\$ 135,743
Financing cash flows from finance leases	\$ 2,370,505	\$ 2,065,827
 SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Patronage dividends payable	\$ 9,064,992	\$ 4,282,290
 Finance lease acquisition of property, plant and equipment	 \$ 1,587,154	 \$ 845,200
 Right of use assets obtained in exchange for lease liabilities	 \$ (93,481)	 \$ 919,801

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

West Central Ag Services, a Minnesota corporation, operates as an agricultural Cooperative. The Cooperative is involved in purchasing and marketing grains, as well as selling crop nutrients, crop protection products, and other farm supply items to individuals and businesses, primarily patrons, within its trade area. The cooperative's facilities are located in the central region of western Minnesota, with its headquarters in Ulen, Minnesota. Minnesota grain purchases included in cost of goods sold were \$529,340,600 and \$501,549,238 during the years ended December 31, 2023 and 2022, respectively.

Cash and Cash Equivalents

For the purpose of cash flows, the Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents".

Money Market Mutual Fund

The Cooperative's money market mutual funds consist of U.S. treasuries and bonds, agency debentures, corporate bonds and other similar assets that have a readily determinable fair market value. Since the Cooperative does not intend to hold these securities to maturity and does not intend to sell them in the near term, these securities are classified as available for sale and accordingly, are valued based on unadjusted quoted prices in active market for identical assets, with realized gains and loss on all marketable securities charged or credited to current earnings.

Trade Receivables

Accounts receivable are stated at the contractual amount billed to the customer plus any accrued and unpaid interest. Customer account balances that do not have special financing terms with invoices dated over 90 days old are considered past due. Interest continues to accrue on past due accounts until the age of any invoices exceeds 180 days and exceeds the associated allowances. The account is then placed on nonaccrual status. When a customer balance is placed on nonaccrual status, the Cooperative reverses any accrued but uncollected interest previously recognized through interest income. In addition, the Cooperative discontinues the accrual of interest and does not resume these accruals unless the account first ceases to be classified as past due and then subsequently requalifies for accrual status.

The Cooperative reduces the carrying amount of accounts receivable by an allowance for expected credit losses. The allowance for expected credit losses is based on our best estimate of expected credit losses in existing receivable balances and is determined using historical write-off experience, adjusted for various industry and regional data and current expectations of future credit losses.

Grower Advantage Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding principal balances adjusted for charge-offs and the allowance for loan losses. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Transfers of financial assets:

Transfers of financial assets are recorded when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Cooperative, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Cooperative does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Allowance for loan losses:

The allowance for loan losses is established as losses estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management confirms the loan balance is not collectable. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Cooperative will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

Loan income and fees:

Loan income and fees consist of various service charges and maintenance fees after origination. The consideration fixed and the Cooperative's performance obligations are satisfied at the time the service or maintenance results from customer activity.

When crop payments are repossessed in satisfaction of a loan, the receivable is written down against the allowance for losses to the estimated fair value of the asset less costs to sell, transferred to other assets, and subsequently carried at the lower of cost or estimated fair value less costs to sell.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Inventory

Grain inventory and stored grain outstanding are priced at net realizable value as determined by the local market, including adjustments to market for open sales and purchase contracts. Fertilizer inventory is priced at local market, including adjustments to market for open sales and purchase contracts. Merchandise inventory is priced at cost (first-in, first-out method) or net realizable value.

The Cooperative performed a physical measurement and count of all station grain and merchandise inventory for the periods ended December 31, 2023 and 2022. Variances with perpetual inventory records were determined due to normal operations and appropriate adjustments were approved for recognition in the current period.

Property and Equipment

Property and equipment are stated at cost. Additions, renewals, and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts and the resulting gain or loss is reflected in income.

It is the policy of the Cooperative to evaluate for capitalization all fixed asset purchases over \$5,000 and to provide depreciation and amortization over the estimated useful life of the individual asset, ranging from 5 to 40 years.

Investments

Cash paid investments are stated at cost and investments incurred from patronage dividends are recorded as written notices of allocation received by the Cooperative.

The patronage earnings and/or losses from other Cooperatives vary substantially from period to period, and interim operating results are not available. Accordingly, patronage allocations of earnings and/or losses for which notifications have not been received cannot be reasonably determined.

Qualified Patronage allocations are credited to patronage refunds received and are not considered in determining local net income. Non-qualified patronage allocations are recognized as income when received and/or determined collectible by management.

The Cooperative believes it is not practicable to estimate the fair value of the securities of these Cooperatives without incurring excessive costs because there is no established market for the securities, and it is inappropriate to estimate future cash flows which are largely dependent on future patronage earnings of these Cooperatives.

Grain Payable and Deferred Payment Contracts

Grain payable includes contracted grain payable and delayed pricing contract grain. Contracted grain payables represent grain that title has passed to the Cooperative through receipt of grain under a fixed price, hedge to arrive, or basis fixed agreement. Delayed pricing contracts represent grain that title has passed to the Cooperative through receipt of grain with the price to be determined at a later date. Deferred payment contracts represent grain that title has passed to the Cooperative through receipt of grain under a contract with the payment due at a specified future date.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Revenue Recognition

Revenue is recognized at the transaction price the Cooperative expects to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Cooperative follows a policy of recognizing revenue at the point in time that the Cooperative satisfies its performance obligation by transferring control of a product or service to a customer in accordance with the underlying contract. The majority of the revenues are attributable to forward commodity sales contracts, which are considered to be physically settled derivatives under ASC 815, Derivatives and Hedging (Topic 815). For physically settled derivative sales contracts that are outside the scope of the revenue guidance, the Cooperative recognize revenue when control of the inventory is transferred within the meaning of ASC Topic 606, or other applicable guidance.

Income Taxes

The effective income tax rate for fiscal years 2023 and 2022 is less than the statutory rate, primarily due to the issuance of patronage refunds, which are deductible for tax purposes but treated as a distribution for financial reporting purposes. Statutory rates are further reduced by provisions available under IRS Section 199A(g). The Cooperative files nonexempt federal and state income tax returns wherein it is subject to tax on income from non-patronage sources and undistributed patronage sourced income.

Income tax expense is primarily the tax calculated for the current period. Uncertain tax positions are recorded in a threshold evaluation and measurement process. Management has determined that the Cooperative does not have any uncertain tax positions.

Commodity Derivatives

The Cooperative uses derivative financial instruments including forward contracts and exchange traded commodity futures and options contracts to manage its exposure to market fluctuations in commodity values. These derivatives are not designated as hedging instruments under FASB Codification subtopic 815-20 and are recorded through cost of sales and included in net income; margin deposits are included on the balance sheet. Futures and options used for hedging are traded through regulated commodity exchanges. The Cooperative's use of commodity contracts and the corresponding freight bookings is a hedge to reduce the risks associated with adverse price movements and market volatility. In its normal course of operations, the Cooperative has exposure to commodity inventory values that may not be fully hedged, due, in part, to the lack of derivative financial instruments for certain commodities. The effect of derivative instruments are identified as commodity contracts and are recorded at fair value.

Advertising Costs

Advertising and promotion costs are expensed as incurred. Total advertising costs totaled \$203,482 and \$61,895 for the years ended December 31, 2023 and 2022, respectively.

Use of Estimates

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

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Presentation of Grain Taxes

The State of Minnesota imposes a grain tax on all of the Cooperative's purchases from nonexempt producers. The Cooperative withholds that grain tax from customers and remits the entire amount to the State. The Cooperative's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Reclassification of Financial Statement Presentation

Certain reclassifications may have been made to the 2022 financial statements to conform to 2023 financial statement presentation. Such reclassifications had no effect on net income as previously reported.

Adoption of Current Expected Credit Loss Standard

In 2023, the Cooperative adopted FASB Accounting Standards Update ASC No. 326, *Current Expected Credit Losses*, which requires a multi factor calculation of the estimated losses. The Cooperative adopted Topic 326 using the optional transition method that allows entities to forgo the comparative reporting requirements under the modifies retrospective transition method. No cumulative effect to patrons' equity was recorded.

NOTE 2 – REVENUE RECOGNITION

The Cooperative provides a wide variety of products and services to its patrons, commission companies, and others. Product sales include agricultural inputs such as farm supplies and agronomy products, to agricultural outputs that include grain. The Cooperative derives its revenues through origination and marketing of grain, including activities conducted at rail and truck terminals, and through retail and wholesale sales of agronomy products and retail sales of farm supplies.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the goods has transferred to the customer. For the majority of the Cooperative's contracts with customers, control transfers to the customer at a point in time when goods and or services have been delivered, as that is generally when legal title, physical possession, and risks and rewards of goods and or services transfer to the customer.

Identify Contracts with Customers

Revenues are measured based on the amount of consideration specified in a contract with a customer. Revenues are recognized when and as performance obligations are satisfied, which generally occurs with the transfer of control of the goods to the customer. The Cooperative's contracts are generally accounted for as a single performance obligation. The evaluation of contracts with customers, performance obligations, and variable consideration requires significant judgment; the decision to combine contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Performance Obligations

Contracts are considered to contain a single performance obligation if the promise to transfer individual goods is not separately identifiable from other promises in the contracts. For performance obligations related to wholesale manufacturers, control transfers to the customer at a point in time. Payment is due based on terms as specified in the contracts. Warranties are included in the sale and do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications. We do not consider these assurance-type warranties to be separate performance obligations.

Variable Consideration

The nature of the Cooperative's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer and are based on achieving certain levels of sales activity, product returns, or price concessions. Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

Significant Judgments

The evaluation of contracts with customers, performance obligations, and variable consideration requires significant judgment; the decision to combine contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

The following tables present revenues recognized under ASC Topic 606, as well as the amount of revenues recognized under ASC Topic 815, *Derivatives and Hedging* ("ASC Topic 815"), ASC Topic 905, *Agriculture* ("ASC Topic 905"), and other applicable accounting guidance for the years ended December 31, 2023 and 2022:

Revenue Recognized	2023			
	ASC	ASC	ASC	Total
	Topic 606	Topic 815	Topic 905	Revenues
Grain	\$ -	\$ 557,346,539	\$ -	\$ 557,346,539
Merchandise	209,893,686	-	-	209,893,686
Other proceeds	16,635,403	-	-	16,635,403
Patronage dividends	-	-	8,478,777	8,478,777
	<u>\$ 226,529,089</u>	<u>\$ 557,346,539</u>	<u>\$ 8,478,777</u>	<u>\$ 792,354,405</u>
Revenue Recognized	2022			
	ASC	ASC	ASC	Total
	Topic 606	Topic 815	Topic 905	Revenues
Grain	\$ -	\$ 524,570,004	\$ -	\$ 524,570,004
Merchandise	189,220,266	-	-	189,220,266
Other proceeds	8,135,746	-	-	8,135,746
Patronage dividends	-	-	2,562,728	2,562,728
	<u>\$ 197,356,012</u>	<u>\$ 524,570,004</u>	<u>\$ 2,562,728</u>	<u>\$ 724,488,744</u>

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NOTE 3 – CONCENTRATION OF CREDIT RISK

Due to the nature of its business operations, the Cooperative grants unsecured credit to its patrons and customers, and derives cash flow from its customers, substantially all of whom are local residents engaged in agri-business. In addition, as a member affiliate, the Cooperative markets a substantial amount of its commodities to CHS, Inc.

Other financial instruments that potentially subject the Cooperative to concentration of credit risk consist principally of local bank deposits in excess of federally insured limits and the uninsured deposits in CoBank and hedging accounts. The Cooperative is at risk for funds in excess of the FDIC insurance limits with regard to financial institutions in the amount of \$84,971,282 and \$27,963,727 as of December 31, 2023 and 2022, respectively.

NOTE 4 – MONEY MARKET MUTUAL FUND

A financial asset’s classification within the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement. Level 1 is quoted market prices in active markets; level 2 is significant other observable inputs and level 3 is significant unobservable inputs.

Following is a description of the valuation methodologies used for assets measure at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Money market funds are the money held in money market liquidity funds whose value is based on unadjusted quoted prices in active exchanges and are classified as level 1 inputs. Changes in fair market value of these marketable securities are recognized in the Cooperative’s statement of operations. Money market funds in Invesco Premier U.S. Government Money Portfolio are stated at fair value. The Cooperative owns shares of IUGXX. The fair values for December 31, 2023 is 1.00 per share.

Invesco premier U.S. Government Money Portfolio – valued at the end of the trading day market value. The values, as provided by the NASDAQ stock exchange, is an unadjusted quoted price for identical assets and liabilities.

		2023			
		<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Invesco Premier U.S. Government					
IUGXX	\$	<u>82,234,415</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>82,234,415</u>
		2022			
		<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Invesco Premier U.S. Government					
IUGXX	\$	<u>19,648,458</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>19,648,458</u>

Management evaluates securities for other-than-temporary impairment on an annual basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost and the intent and ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As management has the ability to hold investments for the foreseeable future if classified as available-for-sale, no declines are deemed other than temporary.

WEST CENTRAL AG SERVICES
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NOTE 5 – RECEIVABLES

Trade Accounts Receivable

The aging classification of trade accounts receivable is as follows as of December 31:

	2023	2022
Current	\$ 11,188,164	\$ 13,051,743
31 to 60 days	8,135	37,537
61 to 90 days	9,900	6,774
Over 91 days	180,018	62,151
	11,386,217	13,158,205
Allowance for credit losses	(940,000)	(920,000)
	\$ 10,446,217	\$ 12,238,205

Grower Advantage Loan Receivable

The Grower Advantage loan receivable is as follows as of December 31:

	2023	2022
Loans	\$ 37,598,431	\$ 26,679,908
Allowance for credit losses	(1,792,000)	(1,692,000)
	\$ 35,806,431	\$ 24,987,908

The Cooperative provides secured financing for crop production to its qualified members. Security consists of UCC-1's and/or input liens. Grower advantage loan receivables secured under such arrangements totaled \$37,598,431 and \$26,679,908 as of December 31, 2023 and 2022, respectively.

The allowance for credit losses reserves for probable and estimable losses incurred in the Cooperative's loan and lease portfolio. Activity in the allowance for credit losses and related loan balances, by portfolio type, is as follows:

December 31, 2023 Allowance for credit losses:

	Promotion	Standard	Total Loans
Balance at beginning of year	\$ 955,200	\$ 736,800	\$ 1,692,000
Provision for credit losses	-	100,000	100,000
Balance at end of year	\$ 955,200	\$ 836,800	\$ 1,792,000
Allowance balance at end of year related to:			
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	955,200	836,800	1,792,000
Total allowance for credit losses	\$ 955,200	\$ 836,800	\$ 1,792,000

(Continued)

WEST CENTRAL AG SERVICES
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December 31, 2023 Allowance for credit losses:

	<u>Promotion</u>	<u>Standard</u>	<u>Total Loans</u>
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>21,980,619</u>	<u>15,617,812</u>	<u>37,598,431</u>
Total gross loans	<u>\$ 21,980,619</u>	<u>\$ 15,617,812</u>	<u>\$ 37,598,431</u>

December 31, 2022 Allowance for credit losses:

	<u>Promotion</u>	<u>Standard</u>	<u>Total Loans</u>
Balance at beginning of year	\$ 955,200	\$ 636,800	\$ 1,592,000
Provision for credit losses	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Balance at end of year	<u>\$ 955,200</u>	<u>\$ 736,800</u>	<u>\$ 1,692,000</u>
Allowance balance at end of year related to:			
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>955,200</u>	<u>736,800</u>	<u>1,692,000</u>
Total allowance for credit losses	<u>\$ 955,200</u>	<u>\$ 736,800</u>	<u>\$ 1,692,000</u>
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>14,099,012</u>	<u>12,580,896</u>	<u>26,679,908</u>
Total gross loans	<u>\$ 14,099,012</u>	<u>\$ 12,580,896</u>	<u>\$ 26,679,908</u>

Credit Quality

The quality of the Cooperative's loan portfolio is assessed as a function of net credit losses, levels of nonperforming assets and delinquencies, and credit quality ratings as defined by the Cooperative. These credit quality ratings are an important part of the Cooperative's overall credit risk management process and evaluation of its allowance for credit losses.

The following table provides a summary of loans by portfolio type, including the delinquency status of those loans that continue to accrue interest, and those loans that are nonperforming:

<u>Accruing</u>	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Non-Accrual</u>	<u>Total</u>
Crop input loans, December 31, 2023	\$ 37,598,431	\$ -	\$ -	\$ -	\$ 37,598,431
Crop input loans, December 31, 2022	26,679,908	-	-	-	26,679,908

(Continued)

WEST CENTRAL AG SERVICES
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Risk Ratings

The Cooperative has established a three letter Loan Risk Rating scale with a “AA” being assigned to the highest quality credits and a “B” to the lowest quality. Each rating shall signify the overall quality of the loans and/or borrowing relationship and the risk associated therewith. Loans with a risk rating between AA and B are categorized as “Pass”; loans with a risk rating below a B are not issued credit commitments. The following table provides a summary of loans by portfolio type and the Cooperative’s internal credit quality rating:

<u>Risk Rating</u>	<u>AA</u>	<u>A</u>	<u>B</u>	<u>Total</u>
Crop input loans, December 31, 2023	\$ 10,085,073	\$ 25,778,897	\$ 1,734,461	\$ 37,598,431
Crop input loans, December 31, 2022	4,914,000	19,841,086	1,924,822	26,679,908

Impairment

A loan is considered to be impaired when, based on the current events or information, it is probable the Cooperative will be unable to collect all amounts due per the contractual terms of the loan agreement. Impaired loans include certain accruing and non-accruing loans, including loans for which a charge-off has been recorded based upon the fair value of the underlying collateral. All loans and commitments to extend credit balances are considered in the valuation allowance. The total loans had an individual impairment allowance of \$-0- and \$-0- as of December 31, 2023 and 2022, respectively.

Current Expected Credit Loss Pools

	<u>Receivable</u>	<u>Allowance for Credit Loss</u>
Trade accounts receivable	\$ 11,386,217	\$ 940,000
Grain receivable, net of advances	2,115,110	-
Patron advances	7,338,894	-
Grower advantage	37,598,431	1,792,000
Other receivables	3,887,370	-

Current Changes in Current Expected Credit Loss

	<u>2023</u>
Beginning balance, January 1st	\$ 2,612,000
Provision for credit losses	<u>120,000</u>
Ending balance, December 31st	<u>\$ 2,732,000</u>

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NOTE 6 – GRAIN INVENTORY AND STORAGE OBLIGATIONS

Stored grain inventory is deducted from gross inventories to reflect the net value of the grain inventory owned by the Cooperative. The Cooperative acts as warehouseman insofar as the stored inventory is concerned and its only liability is to deliver the warehouse receipted grain when it is called for. A summary of grain inventory, stored grain liability, and alternative disclosure of trading activities is presented as follows as of December 31:

2023						
Total Grain Inventory		Warehouse Receipt and Open Stored Grain		Cash Grain Position		
Amount	Bu./Cwt.	Amount	Bu./Cwt.	Amount	Bu./Cwt.	
Spring wheat	\$ 50,308,814	7,038,522	\$ -	-	\$ 50,308,814	7,038,522
Soybeans	22,728,828	1,821,935	-	-	22,728,828	1,821,935
Corn	38,121,795	8,737,722	-	-	38,121,795	8,737,722
Commodity contracts	(6,561,699)		-		(6,561,699)	
	\$ 104,597,738		\$ -		\$ 104,597,738	

2022						
Total Grain Inventory		Warehouse Receipt and Open Stored Grain		Cash Grain Position		
Amount	Bu./Cwt.	Amount	Bu./Cwt.	Amount	Bu./Cwt.	
Spring wheat	\$ 46,018,446	4,843,345	\$ -	-	\$ 46,018,446	4,843,345
Soybeans	24,944,259	1,637,716	-	-	24,944,259	1,637,716
Corn	51,656,874	7,827,749	-	-	51,656,874	7,827,749
Commodity contracts	(1,172,868)		-		(1,172,868)	
	\$ 121,446,711		\$ -		\$ 121,446,711	

NOTE 7 – MERCHANDISE INVENTORY

The major classifications of merchandise inventory on hand were as follows as of December 31:

	2023	2022
Chemicals	\$ 38,768,394	\$ 34,732,465
Dry fertilizer	14,496,910	30,540,984
Liquid fertilizer	3,285,901	4,061,154
Nutritionals	1,947,521	1,938,866
Other merchandise	287,892	261,723
Prepaid merchandise	52,643,752	44,692,890
Seed	12,618,209	12,943,690
	\$ 124,048,579	\$ 129,171,772

WEST CENTRAL AG SERVICES
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NOTE 8 – OTHER ASSETS - INVESTMENTS IN OTHER COOPERATIVES

The principal investments held in other Cooperatives, consisting of allocated equities and cash investments, were as follows as of December 31:

	2023	2022
CHS, Inc.	\$ 16,286,484	\$ 20,292,323
Land O'Lakes, Inc.	4,543,333	4,389,208
All others	3,563,895	772,512
	\$ 24,393,712	\$ 25,454,043

NOTE 9 – OTHER ASSETS - INVESTMENTS IN PARTNERSHIPS

The principal other assets held by the Cooperative consist of investments in other companies.

The Cooperative holds a 50% interest in Central Plains Ag Services, LLC, a 16.67% interest in Alton Agronomy, LLC, and an immaterial percentage of ownership in all other investments. Due to the Cooperative's ability to exercise significant influence as a result of ongoing patron contact and relationships, these investments are accounted for under the equity method of accounting. The Cooperative recognized income (loss) of \$2,071,118 and (\$722,295) from Central Plains Ag, LLC and \$240,027 and \$274,072 from Alton Agronomy, LLC for the years ended December 31, 2023 and 2022, respectively.

The Cooperative's investment in Central Plains Ag Services, LLC is reflected on the accompanying balance sheets as investments in LLC's and on the accompanying statements of operations as partnership income. The following is a summary of the financial position and results of operations for Central Plains Ag Services, LLC for the years ended December 31:

	2023	2022
Current assets	\$ 71,496,946	\$ 72,867,110
Noncurrent assets	16,448,527	18,121,729
	\$ 87,945,473	\$ 90,988,839
Current liabilities	\$ 53,107,150	\$ 59,158,681
Noncurrent liabilities	7,267,788	7,000,000
Equity	27,570,535	24,830,158
	\$ 87,945,473	\$ 90,988,839

(Continued)

WEST CENTRAL AG SERVICES
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The Cooperative's 50% interest in equity is reflected on the balance sheets as follows:	\$ <u>13,785,268</u>	\$ <u>12,415,079</u>
Total revenue	\$ 171,158,529	\$ 182,593,720
Total expenses	<u>167,016,293</u>	<u>184,038,307</u>
Net income (loss)	\$ <u>4,142,236</u>	\$ <u>(1,444,587)</u>
The Cooperative's 50% interest in net income (loss) is reflected on the statements of operations as follows:	\$ <u>2,071,118</u>	\$ <u>(722,294)</u>

NOTE 10 – RELATED PARTY TRANSACTIONS

The Cooperative is a membership cooperative with one member, one vote. The Board of Directors, each serving three-year staggered terms, is elected from among its membership each year at the patrons' annual meeting. Director compensation is established by the Board and consists of \$500 per month and \$200 per meeting for both its President and Secretary and \$150 for all remaining directors. The Cooperative purchases commodities and sells products and services to members of the Board of Directors in the ordinary course of business.

Transactions between West Central Ag Services and related parties were principally the result of the purchase of grain and the sale of agronomy products in the ordinary course of business with the Board of Directors. Related party transactions for the years ended December 31, 2023 and 2022 were as follows, net:

	<u>2023</u>	<u>2022</u>
Sales to	\$ 5,601,295	\$ 5,072,967
Purchases from	12,102,879	10,442,954

Related party receivables and payables resulting from transactions in the ordinary course of business as of December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Due to	\$ 10,726,102	\$ 11,006,648
Due from	3,640,660	3,157,685

NOTE 11 – NOTES PAYABLE AND LONG-TERM DEBT

The Cooperative was indebted on seasonal loans and long-term financing on December 31, 2023 and 2022 as follows:

The Cooperative has a seasonal loan commitment from CoBank which matures on June 1st of each year the commitment is in effect. Interest is payable at a variable rate, currently 7.21%, determined by CoBank on any outstanding balance. Advances on the seasonal loan shall be limited to \$100,000,000. The loan is secured by all accounts receivable, inventories, personal property and fixtures owned by the Cooperative. The balances outstanding on the seasonal loan as of December 31, 2023 and 2022, were \$-0- and \$-0-, respectively. Outstanding checks in excess of outstanding deposits on the seasonal loan as of December 31, 2023 and 2022, were \$-0- and \$-0-, respectively.

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Under terms of the special term loan agreement with CoBank, the Cooperative was granted a term-loan commitment to be repaid at final maturity on June 20, 2026. Interest is payable at a variable rate, currently 7.51%, determined by CoBank. Advances on the loan shall be limited to \$15,000,000. The Cooperative has a clearing account utilized for the processing of cleared checks. This account is utilized for short-term funds before transactions are processed and drawn against the CoBank term and seasonal loans. The CoBank special term loan is secured by a first real estate mortgage covering all real property and a security interest in all personal property and fixtures owned by the Cooperative. The balances outstanding on the term loan account as of December 31, 2023 and 2022 were \$708,147 and \$14,994,057, respectively.

<u>Payee</u>	<u>Assigned as Collateral</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>2023</u>	<u>2022</u>
CoBank	Security Agreement (see above)	7.51%	6/20/2026	\$ <u>708,147</u>	\$ <u>14,994,057</u>

While the loan agreement is in effect, the Cooperative has agreed to comply with (among others) the following conditions placed on them by CoBank:

Transfer of Assets

The Cooperative shall not sell, transfer, lease, or otherwise dispose of any of its assets, except: (a) in the ordinary course of business; and (b) the sale, transfer, or disposal of any obsolete or worn-out assets that are no longer necessary or required in the conduct of the Borrower's business.

Change in Business

The Cooperative shall not engage in any business activities or operations substantially different from or unrelated to present business activities or operations.

Use of Proceeds

The Cooperative shall not use the proceeds of any loan made by CoBank, whether directly or indirectly, and whether immediately, incidentally, or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the Board) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

Working Capital

The Borrower will have at the end of each period for which financial statements are required to be furnished pursuant to this Agreement an excess of consolidated current assets over consolidated current liabilities of not less than \$30,000,000, except that in determining consolidated current assets, any amount available under any revolving term promissory note with Lender hereunder (less the amount that would be considered a current liability if fully advanced) may be included (all as determined in accordance with the Accounting Standards).

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Local Net Worth

The Borrower will have at the end of each period for which financial statements are required to be furnished pursuant to this Agreement an excess of consolidated total assets over consolidated total liabilities, minus investments in other cooperatives and joint ventures, of not less than \$107,000,000 (the "Minimum Local Net Worth Requirement"). The Minimum Local Net Worth Requirement shall be increased, on a cumulative basis, at the end of fiscal year 2020 of the Borrower and at the end of each fiscal year of the Borrower thereafter by an amount equal to 30.00% of the Borrower's net income, if positive, as calculated as of the end of such fiscal year (all as determined in accordance with the Accounting Standards). The Minimum Local Net Worth Requirement shall not be decreased if the Borrower has a net loss at the end of any fiscal year of the Borrower.

The Cooperative was in compliance with all covenants for the fiscal year ended 2023 and all other periods for which the financial statements were required to be furnished.

Long-term debt maturities are as follows:

2024		\$	-
2025			-
2026			<u>708,147</u>
		\$	<u><u>708,147</u></u>

NOTE 12 – LEASES

The Cooperative assesses arrangements at inception to determine whether they contain a lease. An arrangement is considered to contain a lease if it conveys the right to control the use of an asset for a period of time in exchange for consideration. The right to control the use of an asset must include both (i) the right to obtain substantially all economic benefits associated with an identified asset and (ii) the right to direct how and for what purpose the identified asset is used. Certain service agreements may provide us with the right to use an identified asset; however, most of these arrangements are not considered to represent a lease as the Cooperative does not control how and for what purpose the identified asset is used.

The Cooperative leases property, plant and equipment used in its operations primarily under finance lease agreements and, to a lesser extent, under operating lease agreements. The leases are primarily for land, equipment, and storage, many of which contain renewal options and escalation clauses. Renewal options are included as part of the right of use asset and liability when it is reasonably certain that the Cooperative will exercise the renewal option; however, renewal options are generally not included as the Cooperative is not reasonably certain to exercise such options.

After the adoption of ASC Topic 842 on December 15, 2022, right of use assets and liabilities for operating and finance leases are recognized at the lease commencement date for leases in excess of 12 months based on the present value of lease payments over the lease term. For measurement and classification of lease agreements, lease and non-lease components are grouped into a single lease component for all asset classes. Variable lease payments are excluded from measurement of right of use assets and liabilities and generally include payments for non-lease components such as maintenance costs, payments for leased assets beyond their noncancelable lease term and payments for other non-lease components such as sales tax. The discount rate used to calculate present value is the Cooperative's collateralized incremental borrowing rate or, if available, the rate implicit in the lease. The incremental borrowing rate is determined for each lease based primarily on its lease term. Certain lease arrangements include rental payments adjusted annually based on changes in an inflation index. The Cooperative's lease arrangements generally do not contain residual value guarantees or material restrictive covenants.

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Non-cancelable equipment leases expiring through March of 2028, payable in installments aggregating approximately \$2,507,131, annually, including imputed interest at various rates ranging from 3.37% to 6.02%, secured by equipment under lease.

Lease expense is recognized on a straight-line basis over the lease term or asset life. The components of lease expense recognized in the Statements of Operations as of December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Finance lease cost		
Amortization of right-of-use assets	\$ 1,754,292	\$ 1,480,557
Interest on lease liabilities	499,811	476,758
Operating lease cost	95,644	95,644
Short-term lease cost	<u>244,700</u>	<u>325,490</u>
 Total lease cost	 <u>\$ 2,594,447</u>	 <u>\$ 2,378,449</u>

Supplemental balance sheet information related to finance leases as of December 31, 2023, is as follows:

	<u>Balance Sheet Location</u>	
Operating leases		
Assets		
Operating lease assets	Other assets	\$ 826,320
Liabilities		
Current operating lease liabilities	Current liabilities	\$ 193,968
Long-term operating lease liabilities	Long-term liabilities	<u>632,352</u>
 Total operating lease liabilities		 <u>\$ 826,320</u>
Finance leases		
Assets		
Finance lease assets	Property, plant and equipment	\$ 17,355,472
Liabilities		
Current finance lease liabilities	Current liabilities	\$ 2,109,934
Long-term finance lease liabilities	Long-term liabilities	<u>10,490,603</u>
 Total finance lease liabilities		 <u>\$ 12,600,537</u>

Information related to the lease term and discount rate for finance leases as of December 31, 2023, is as follows:

Weighted average remaining term (in years)	
Finance leases	4.00
Weighted average discount rate	
Finance leases	3.75%

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Maturities of lease liabilities by fiscal year as of December 31, 2023, were as follows:

	Finance Leases	Operating Leases
2024	\$ 2,507,131	\$ 193,968
2025	2,840,836	193,968
2026	2,481,959	119,568
2027	2,481,959	119,568
2028	3,471,929	119,568
Thereafter	<u>-</u>	<u>362,232</u>
Total maturities of lease liabilities	13,783,814	1,108,872
Amount representing interest	<u>(1,183,277)</u>	<u>(282,552)</u>
Present value of future minimum lease payments	12,600,537	826,320
Current portion	<u>(2,109,934)</u>	<u>(193,968)</u>
Long-term lease liabilities, net	\$ <u><u>10,490,603</u></u>	\$ <u><u>632,352</u></u>

Right of use assets held under finance leases consist of the following, net of accumulated amortization as of December 31:

	<u>2023</u>	<u>2022</u>
Case floaters	\$ 1,819,740	\$ 787,586
John Deere 344L Wheel Loader	962,200	845,200
Freightliners	1,012,840	457,840
Ulen storage expansion	4,853,327	4,853,327
Beltrami storage expansion	<u>16,897,181</u>	<u>16,897,181</u>
	25,545,288	23,841,134
Accumulated amortization	<u>(8,189,816)</u>	<u>(6,435,524)</u>
Equipment under finance lease, net	\$ <u><u>17,355,472</u></u>	\$ <u><u>17,405,610</u></u>

NOTE 13 – INCOME TAXES AND DEFERRED TAX LIABILITY

The provision for income taxes consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Currently payable	\$ 1,823,121	\$ 1,443,946
Tax effect of timing differences	<u>97,281</u>	<u>265,765</u>
Income tax provision	\$ <u><u>1,920,402</u></u>	\$ <u><u>1,709,711</u></u>

The income tax provision for the years ended December 31, 2023 and 2022, was reduced as a result of the Cooperative utilizing certain deductions available to cooperatives pursuant to the internal revenue code.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The deferred tax liability resulting from temporary differences consisted of the following at December 31:

	2023	2022
Deferred tax liability		
Accelerated tax depreciation	\$ 1,628,624	\$ 1,476,434
Allowance for doubtful accounts	(683,000)	(574,640)
Accelerated partnership tax depreciation	1,365,769	1,252,446
Section 263a adjustment	(161,787)	(101,915)
Total deferred tax liability	\$ 2,149,606	\$ 2,052,325

NOTE 14 – PATRONAGE DIVIDENDS AND PATRONAGE CREDITS

The Board of Directors determines annually the cash dividends to be paid to the patrons from current period net income. The balance of patronage credits represents accumulated patronage dividends allocated to patrons but not paid in cash.

NOTE 15 – RETIREMENT PLANS

The Cooperative participates in the defined and cash balance multiple employer pension plans for all employees of member Cooperatives of CHS, Inc. All full-time employees are covered by the plan. The plan is greater than 100% funded as reported on the Actuarial Valuation of the Pension Plan Report, ERISA Actuarial Accrued Liability. Contributions made by the Cooperative are determined on an actuarial basis. Benefits are funded by an unallocated group annuity contract. Employer contributions to the plan for the years ended December 31, 2023 and 2022, totaled \$1,253,737 and \$1,238,235, respectively.

The Cooperative provides a 401(k) plan for its employees. All employees who work over 1,000 hours per year, are at least 21 years of age, and have at least 1,000 hours of service are eligible to participate in the plan. The Cooperative matches employee contributions up to 4% for each individual that participates in the plan. For the years ended December 31, 2023 and 2022, contributions made by the Cooperative totaled \$363,191 and \$402,913, respectively.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Any gain or loss that may be realized from weight, grade, or quality variations on open grain sales, purchase, and hedging contracts are not necessarily reflected in these financial statements. The Cooperative is contingently liable for any weight, grade, or quality deficiencies that may occur at settlement of stored grain obligations and delayed pricing grain contracts payable.

The Cooperative has entered into contractual agreements to construct additional storage and service facilities. The cost to complete the project is estimated by management to approximate \$3,110,325. As of December 31, 2023, the Cooperative has made capital expenditures of approximately \$5,980,000 associated with these projects.

The Cooperative is subject to federal and state regulations regarding the care, delivery, and containment of petroleum, agronomy, and other products the Cooperative handles or has handled. The Cooperative is contingently liable for any cleanup costs resulting from contamination which could arise from the handling, delivery, and containment of these products.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 17 – GRAIN RECEIPTS AND SALES IN UNITS

The major commodities handled by the Cooperative were as follows for the years ended December 31:

		<u>2023</u>	<u>2022</u>
Units received			
Wheat	Bu.	13,221,593	12,179,239
Soybeans	Bu.	13,933,703	13,921,370
Corn	Bu.	<u>35,591,158</u>	<u>24,884,669</u>
Total		<u>62,746,454</u>	<u>50,985,278</u>
		<u>2023</u>	<u>2022</u>
Units sold			
Wheat	Bu.	11,026,416	11,729,225
Soybeans	Bu.	13,749,484	12,789,795
Corn	Bu.	<u>34,681,185</u>	<u>27,070,006</u>
Total		<u>59,457,085</u>	<u>51,589,026</u>

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the Fair Value Measurements Topic of the FASB Accounting Standards Codification (ASC 820), the Fair Value Measurements table represents the Cooperative’s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of the measurement date. Exchange traded futures and options are valued based on unadjusted quoted prices in active markets and are classified within Level 1 of Fair Value Measurements. Forward commodity purchase and sales contracts, flat price or basis fixed contracts and rail freight contracts are adjusted for local inputs and are classified within Level 2 of Fair Value Measurements. The Cooperative is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying value of the Cooperative’s financial instruments, including grain and fertilizer inventory, forward and future grain contracts, and delayed price grain, approximates fair value based on the short-term maturity of these instruments. This note contains information related to all other fair value notes disclosed in this financial statement. The three levels are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date. These assets and liabilities include the Cooperative’s exchange traded derivative contracts and available-for-sale investments.

Level 2: Inputs are other than quoted prices included within Level 1; the inputs are observable for the asset or liability, either directly or indirectly.

Level 3: Values are generated from unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The estimated fair values of the Cooperative's financial instruments were as follows:

	2023			
	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Grain inventory	\$ 111,159,437	\$ -	\$ 111,159,437	\$ -
Grain futures contracts	2,010,838	2,010,838	-	-
Forward grain contracts	(8,572,537)	-	(8,572,537)	-
Money market mutual funds	82,234,415	82,234,415	-	-
Fertilizer inventory	17,782,811	-	17,782,811	-
Financial liabilities				
Delayed price grain payable	66,529,018	-	66,529,018	-
CoBank debt	708,147	708,147	-	-
Long-term finance leases	10,490,603	10,490,603	-	-
Off-balance sheet instruments				
Commitments to extend credit	637,224	-	-	637,224
2022				
	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Grain inventory	\$ 122,619,579	\$ -	\$ 122,619,579	\$ -
Grain futures contracts	(996,638)	(996,638)	-	-
Forward grain contracts	(176,230)	-	(176,230)	-
Money market mutual funds	19,648,458	19,648,458	-	-
Fertilizer inventory	34,602,138	-	34,602,138	-
Financial liabilities				
Delayed price grain payable	46,062,330	-	46,062,330	-
CoBank debt	14,994,057	14,994,057	-	-
Long-term finance leases	11,393,529	11,393,529	-	-
Off-balance sheet instruments				
Commitments to extend credit	962,459	-	-	962,459

The following methods and assumptions were used by the Cooperative in estimating fair values of financial instruments as disclosed herein:

Money market mutual funds – Valued at the net asset value (“NAV”) of shares held by the plan at year-end. Mutual funds held by the plan are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The money market mutual funds held by the plan are deemed to be actively traded.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

Grain inventory and forward grain contracts – Valued at the contract value of the underlying units, which approximates fair value. Fair value is determined by adjusting the exchange traded futures and options for local market basis. Basis is defined as the amount in cents per bushel a specified local cash price is above or below a futures price for a specified delivery month, due to factors including transportation costs, the cost and availability of storage, and the local demand for the commodity.

Grain futures contracts – Valued at the end of the trading day market value. The values, as provided by the CME Group Inc. and Minneapolis Grain Exchange, Inc., are unadjusted quoted prices for identical assets or liabilities.

Fertilizer inventory – Valued at the contract value of the underlying units, which approximates fair value. Fair value is determined by adjusting the exchange traded futures and options for local market factors or secondary purchase transactions on or near year end. Local market factors include transportation costs, the cost and availability of product, and the local demand for the product.

Accrued interest payable – The carrying amounts of accrued interest payable approximate their fair values.

Delayed price grain payable – Fair values for delayed price grain payable are based on local market prices and approximate fair value.

CoBank debt – The carrying amount of short-term borrowings approximates its fair value. Long-term CoBank borrowings have a variable interest rate and approximate their fair value.

Long-term finance leases – The carrying amount of long-term finance leases approximates the fair value.

Off-balance-sheet instruments – Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying value of the Cooperative's financial instruments, consisting of receivables, inventory, prepaid expenses, lines of credit, payables, and other obligations, approximates fair value based on the short-term maturity of these instruments. The carrying value of long-term obligations approximates its fair value as interest rates approximate market rates.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Cooperative's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Cooperative's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets or liabilities include the patron advances receivable, patron accounts receivable, other inventories, property, plant and equipment, and accounts payable. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

NOTE 19 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Cooperative is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its patrons. These financial instruments include commitments to extend credit for crop inputs. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Cooperative has in particular classes of financial instruments.

Financial instruments whose contract amounts represent credit risk:

Contract or Notional Amount

Commitments to extend credit	\$ 63,722,411
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The Cooperative’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Cooperative uses the same credit policies in making commitments as it does for on-balance sheet instruments.

NOTE 20 – DERIVATIVES

The Cooperatives operations utilize exchange traded futures and options as well as over-the-counter (OTC) cash forward purchase and sales contracts to manage commodity price risk associated with marketing grain. Substantially all of the grain sales of the Cooperative are the result of physical delivery of commodities against forward cash contracts, and substantially all of the grain cost of sales are the result of purchases of commodities on forward cash contracts, and gains and losses from all other commodity derivatives along with the change in value of grain inventories (non-derivatives) which are recorded at market price. These derivatives meet the definition of trading activities and may be presented using an alternative disclosure format, which includes disclosing the realized and unrealized gains and losses on both derivative instruments and non-derivative instruments.

As of December 31, 2023 and 2022, the Cooperative and its subsidiaries had the following quantities outstanding (on a net basis) on derivative contracts that were entered into as non-designated economic hedges of overall price risk:

Underlying		2023	2022
Wheat	Bu.	250	(1,857)
Soybeans	Bu.	(12,643)	28,455
Corn	Bu.	5,365	19,733

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

The effect of open derivatives held as economic hedges but not designated under ASC 815 is shown below, as reported in the Statements of Operations for the years ended December 31, 2023 and 2022, respectively:

Commodity contracts recognized in income	2023	2022
Cost of sales	\$ (6,561,699)	\$ (1,172,868)

The following table includes the effect of closed trading activities on the Statements of Operations for the years ended December 31, 2023 and 2022, respectively:

Commodity contracts recognized in income	2023	2022
Cost of sales	\$ (18,625,043)	\$ 20,289,704

NOTE 21 – SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through the date of the auditor’s report, which is the date the financial statements were available to be issued. Subsequent to the balance sheet date, the Board of Directors authorized an equity retirement of approximately \$5,158,000 as a component of the financing activities due and payable during the 2024 calendar year, no other events have occurred that would require recognition in the financial statements or disclosure in the notes of the financial statements.

WEST CENTRAL AG SERVICES

**SUPPLEMENTARY FINANCIAL INFORMATION
DECEMBER 31, 2023 AND 2022**



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY FINANCIAL INFORMATION

Board of Directors
West Central Ag Services
Ulen, Minnesota

We have audited the financial statements of **West Central Ag Services** (a Cooperative) as of and for the years ended December 31, 2023 and 2022, and our report thereon dated March 12, 2024, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 32 is presented for purposes of additional analysis 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 audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Fargo, North Dakota
March 12, 2024

WEST CENTRAL AG SERVICES
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Salaries and wages	\$ 19,549,850	\$ 16,994,813
Employee insurance	2,732,532	2,912,345
Employee retirement plans	1,616,928	1,641,148
Payroll taxes	1,384,612	1,115,952
Total salaries and benefits	<u>25,283,922</u>	<u>22,664,258</u>
Mobile equipment	2,607,546	2,515,916
Insurance and bonds	2,085,792	1,760,128
Repairs and maintenance	1,641,799	1,789,977
Utilities	1,217,072	1,132,651
Property taxes	844,892	862,693
Data processing	626,895	546,251
Dryer fuel	614,130	540,312
Meetings, convention and travel	491,390	513,165
Building, equipment and other rent	340,344	421,134
Office supplies and postage	270,228	246,184
General supplies	233,748	196,353
Bank and credit card charges	222,119	156,692
Advertising	203,482	61,895
Miscellaneous	183,895	69,283
Professional fees	150,053	139,861
Director fees	143,900	135,900
Telephone	139,897	134,302
Market quoter	78,805	96,034
Dues, subscriptions and memberships	72,959	80,396
Licenses and fees	53,474	39,357
Contributions	46,864	33,339
Safety, training and education	5,973	9,964
Contract labor	1,500	-
Bad debt expense	724	117,611
	<u>12,277,481</u>	<u>11,599,398</u>
	<u>\$ 37,561,403</u>	<u>\$ 34,263,656</u>

NOTES
