Report Of Independent Auditors And
Consolidated Financial Statements
With Supplementary Information

Kaua'i Island Utility Cooperative And Subsidiaries

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Kaua'i Island Utility Cooperative and Subsidiaries

Report on the Audit of the Financial Statements

Opinions

We have audited the consolidated financial statements of Kaua'i Island Utility Cooperative and Subsidiaries (the "Cooperative"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, equities and cash flows the years then ended, and the related notes to the financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kaua'i Island Utility Cooperative and Subsidiaries as of December 31, 2022 and 2021, and the changes in their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative and to meet our other ethical responsibilities, in accordance with the 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 audit opinions.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2022, Kaua'i Island Utility Cooperative and Subsidiaries adopted new accounting guidance Accounting Standards Codification Topic 842, *Leases*. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Kaua'i Island Utility Cooperative and Subsidiaries basic financial statements. The consolidating balance sheets and consolidating statements of operations, (collectively, "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating balance sheets and consolidating statements of operations is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023 on our consideration of Kaua'i Island Utility Cooperative and Subsidiaries 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 Kaua'i Island Utility Cooperative and Subsidiaries internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kaua'i Island Utility Cooperative and Subsidiaries internal control over financial reporting and compliance.

Moss Adams LLP

Portland, Oregon
March 30, 2023

Financial Statements

Kaua'i Island Utility Cooperative
Consolidated Balance Sheets
Years Ended December 31, 2022 and 2021

	2022	2021
ASSETS		
ASSETS		
Utility plant		
Electric plant in service	$ 605,562,623	$ 601,314,359
Right of use asset - operating lease	17,178,828	-
Electric plant acquisition cost	54,852,453	54,852,453
Accumulated depreciation and amortization	(361,294,370)	(348,254,760)
Net electric plant in service	316,299,534	307,912,052
Construction work in progress	13,245,623	11,836,079
Net utility plant	329,545,157	319,748,131
Other property and investments		
Investments in associated organizations	2,025,070	1,939,951
Rural economic development loans	967,434	607,500
Total other investments	2,992,504	2,547,451
CURRENT ASSETS		
Cash and cash equivalents	36,833,446	23,160,983
Restricted cash and cash equivalents	1,284,552	1,647,885
Other investments	10,000,000	5,000,000
Accounts and notes receivable, less allowance ($109,503 and $569,999 as of December 31, 2022 and 2021, respectively)	13,052,112	12,039,505
Accrued unbilled revenue	9,279,755	8,871,471
Energy rate adjustment clause	89,426	-
Inventories	22,484,856	19,059,947
Other current assets	1,391,134	2,964,115
Total current assets	94,415,281	72,743,906
Post-retirement benefit asset	20,606	214,503
Deferred debits	34,343,173	34,289,805
	$ 461,316,721	$ 429,543,796

See accompanying notes.

Kaua'i Island Utility Cooperative
Consolidated Balance Sheets
Years Ended December 31, 2022 and 2021

	2022	2021
EQUITIES AND LIABILITIES		
EQUITIES		
Controlling equity interest	$ 134,776,827	$ 133,744,130
Non-controlling equity interest	17,724,051	17,775,258
Total equities	152,500,878	151,519,388
LONG-TERM LIABILITIES		
Long-term debt, less current portion	241,998,534	226,146,530
Operating lease obligation	16,640,306	-
Asset retirement obligations	2,957,920	2,846,406
Total long-term liabilities	261,596,760	228,992,936
CURRENT LIABILITIES		
Current maturities of long-term debt	13,795,833	14,422,637
Accounts payable	8,008,222	9,668,620
Current maturities of operating lease obligation	674,238	-
Energy rate adjustment clause	-	626,354
Consumer deposits	1,263,231	1,367,898
Accrued employee compensation	2,663,499	2,714,642
Accrued taxes	8,904,990	7,426,175
Other current and accrued liabilities	999,891	1,516,527
Total current liabilities	36,309,904	37,742,853
Deferred credits	10,909,179	11,288,619
	$ 461,316,721	$ 429,543,796

See accompanying notes.

Kaua'i Island Utility Cooperative
Consolidated Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Residential	$ 75,465,976	$ 67,665,717
Irrigation	718,357	177,137
Commercial and industrial	98,190,497	85,127,144
Public street and highway lighting	692,840	683,855
Other operating revenues	(259,744)	5,133,601
Total operating revenues	174,807,926	158,787,454
OPERATING EXPENSES		
Cost of power	99,522,277	82,538,182
Transmission – operation	549,624	483,850
Transmission – maintenance	584,049	980,318
Distribution – operation	1,998,178	1,727,764
Distribution – maintenance	4,409,535	4,803,586
Customer accounts	2,151,284	2,203,646
Customer service and information	281,668	272,391
Administrative and general	21,789,908	20,137,954
Depreciation and amortization	19,014,017	18,808,331
Taxes	14,746,541	13,373,251
Accretion expense	111,515	106,236
Total operating expenses	165,158,596	145,435,509
OPERATING MARGIN BEFORE INTEREST	9,649,330	13,351,945
INTEREST ON LONG-TERM DEBT	7,397,917	7,210,177
OPERATING MARGINS	2,251,413	6,141,768
NONOPERATING MARGINS		
Interest income	637,522	492,373
Capital credits	201,912	240,619
Other nonoperating income (expense), net	74,892	1,409,090
Total nonoperating margins	914,326	2,142,082
NET MARGINS	3,165,739	8,283,850
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	7,020	13,002
NET MARGINS – COOPERATIVE	3,172,759	8,296,852
COMPREHENSIVE INCOME		
Postretirement benefit obligation gain	211,855	163,209
COMPREHENSIVE INCOME – COOPERATIVE	$ 3,384,614	$ 8,460,061

See accompanying notes.

Kaua'i Island Utility Cooperative
Consolidated Statements of Equities
Years Ended December 31, 2022 and 2021

	2022	2021
CONTROLLING EQUITY INTEREST		
Memberships		
Balance at January 1	$ 583	$ 565
Additions	15	18
Balance at December 31	598	583
Patronage capital		
Balance at January 1	133,560,252	126,559,857
Transfer of net margins	3,172,759	8,296,852
Retirement of capital credits, net	(2,019,306)	(1,296,457)
Balance at December 31	134,713,705	133,560,252
Other equity		
Balance at January 1	1,048,231	984,074
Additions	91,084	64,157
Balance at December 31	1,139,315	1,048,231
Accumulated other comprehensive loss		
Balance at January 1	(864,936)	(1,028,145)
Amortization of gains	31,166	45,142
Actuarial gain	(243,021)	118,067
Balance at December 31	(1,076,791)	(864,936)
Total controlling equity interest	134,776,827	133,744,130
NON-CONTROLLING EQUITY INTEREST		
Capital account – A&B KRS II		
Balance at January 1	17,775,258	17,827,510
Distributions	(44,187)	(39,250)
Non-controlling interest in current loss	(7,020)	(13,002)
Total non-controlling equity interest	17,724,051	17,775,258
Total equities	$ 152,500,878	$ 151,519,388

See accompanying notes.

Kaua'i Island Utility Cooperative
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Net margins	$ 3,172,759	$ 8,296,852
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	19,584,279	19,347,205
Accretion of asset retirement obligation	111,515	106,236
Noncash lease expense	135,716	-
Interest earned on cushion of credit	(57,357)	(444,499)
Capital credit allocations	(201,912)	(240,619)
Net margins attributable to non-controlling interest	(7,020)	(13,002)
Forgiveness of PPP loan	-	(2,881,250)
Changes in assets and liabilities		
Accounts receivable and unbilled revenue	(1,420,891)	(2,679,770)
Energy rate adjustment clause	(715,780)	635,187
Inventories and other current assets	(1,851,928)	(3,676,732)
Deferred debits	(53,368)	(6,515,255)
Postretirement benefit obligation/asset	1,170,462	(37,910)
Payables and accrued expenses	(1,210,139)	869,525
Deferred credits	(379,440)	415,717
Net cash from operating activities	18,276,896	13,181,685
INVESTING ACTIVITIES		
Additions to utility plant, net	(12,977,431)	(16,395,848)
Rural economic development loans, net	(359,934)	(270,000)
Other investments	(4,883,207)	(4,887,687)
Net cash used for investing activities	(18,220,572)	(21,553,535)
FINANCING ACTIVITIES		
Borrowings from long-term debt	21,056,000	26,008,000
Principal payments on long-term debt	(5,830,800)	(11,138,445)
Distributions to non-controlling equity interest	(44,187)	(39,250)
Memberships	15	18
Other equities	91,084	64,157
Retirement of patronage capital	(2,019,306)	(1,296,457)
Net cash from financing activities	13,252,806	13,598,023
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,309,130	5,226,173
CASH AND CASH EQUIVALENTS, beginning of year	24,808,868	19,582,695
CASH AND CASH EQUIVALENTS, end of year	$ 38,117,998	$ 24,808,868

See accompanying notes.

Kaua'i Island Utility Cooperative
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 6,541,370	$ 6,353,630
Income taxes	$ 12,400	$ 10,833
NONCASH INVESTING ACTIVITIES		
Liabilities incurred for additions to utility plant	$ 325,816	$ 3,453,662
NONCASH NONOPERATING ACTIVITIES		
Forgiveness of PPP Loan	$ -	$ 2,881,250

See accompanying notes.

Note 1 – Organization

General – Kaua'i Island Utility Cooperative (the Cooperative), a not-for-profit cooperative association pursuant to the provisions of Chapter 421C of the Hawaii Revised Statutes, was formed to purchase and operate the electric utility on the island of Kaua'i, Hawaii. The Cooperative is the exclusive retail electric service provider for the island of Kaua'i and provides electric generation, transmission and distribution services to approximately 39,000 customers. The Cooperative's headquarters facility is located in Lihue, Hawaii.

On November 1, 2002, the Cooperative acquired substantially all of the assets of Kaua'i Electric (KE), a division of Citizens Communications Company (Citizens). The aggregate purchase price was approximately $218 million, which included transaction costs incurred in the acquisition, and was financed by lines-of-credit from the National Rural Utilities Cooperative Finance Corporation (CFC) and loans from the U.S. government.

On October 10, 2011, the Cooperative created a wholly owned subsidiary, KIUC Renewable Solutions One LLC (KRS One). KRS One is a Delaware limited liability company that has elected to be treated as a corporation for federal tax purposes. KRS One was created to construct, own, and operate a photovoltaic (PV) facility for the purpose of selling the renewable energy produced by the PV facility to the Cooperative for use in the Cooperative's operations. The facility went into commercial operation on October 30, 2015.

On October 11, 2012, the Cooperative created a wholly owned subsidiary, KIUC Renewable Solutions Two LLC (KRS Two). KRS Two is a Delaware limited liability company that has elected to be treated as a disregarded entity for federal tax purposes. KRS Two was created to construct, own, and operate a PV facility for the purpose of selling the renewable energy produced by the PV facility to the Cooperative for use in the Cooperative's operations. The facility went into commercial operation on September 5, 2014.

On August 1, 2013, the Cooperative created a wholly owned subsidiary, KIUC Renewable Solutions Two Holdings LLC (KRS Two Holdings). KRS Two Holdings is a Delaware limited liability company that initially elected to be treated as a disregarded entity for federal tax purposes. Effective January 1, 2014, KRS Two Holdings has elected to be treated as a corporation for federal tax purposes. KRS Two Holdings was created as a holding company to own KRS Two. On August 28, 2013, the Cooperative transferred 100% of its membership interests in KRS Two to KRS Two Holdings.

On July 3, 2014, KRS Two Holdings and A&B KRS II LLC (Investor) entered into an Amended and Restated Limited Liability Company Agreement (the LLC Agreement) of KRS Two. On that date, KRS Two Holdings made a capital contribution to KRS Two in exchange for all of the Class A membership interests in KRS Two and the Investor made a capital contribution to KRS Two in exchange for all of the Class B Membership Interests in KRS Two. KRS Two Holdings is the Managing Member of KRS Two. Allocations of profits, losses, contributions, and distributions are made in accordance with the LLC Agreement. In accordance with the LLC Agreement, the "Flip Date" means the date on which Investor achieves an Internal Rate of Return (IRR) equal to the Target IRR, as defined in the LLC Agreement. The Flip Date had occurred during 2020.

Note 2 – Summary of Significant Accounting Policies

The accompanying consolidated financial statements reflect the financial position and results of operations for the Cooperative and its wholly owned subsidiaries KRS One and KRS Two Holdings. See Note 2, principles of consolidation, for further discussion on consolidation.

Principles of consolidation – The consolidated financial statements include the accounts of the Cooperative and its wholly owned subsidiaries, KRS One and KRS Two Holdings. KRS Two Holdings' consolidated financial statements include the accounts of KRS Two Holdings' partially owned subsidiary KRS Two. The consolidation of the Cooperative, KRS One, and KRS Two Holdings eliminated all inter-company transactions and balances. The consolidation of KRS Two Holdings and KRS Two eliminated all intercompany transactions and balances. See supplementary information for details on the elimination of intercompany transactions and balances.

Basis of accounting and presentation – The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to regulated enterprises, which conform to policies prescribed or permitted by the Hawaii Public Utilities Commission (HPUC) and the United States Department of Agriculture, Rural Utilities Service (RUS).

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities.

Regulatory accounting – Due to regulation of its rates by the Hawaii Public Utility Commission (HPUC), the Cooperative follows regulatory accounting requirements. Regulatory accounting requirements recognize that the ratemaking process can result in differences in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences generally involve the accounting period in which various transactions enter into the determination of net margins. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery and are approved by the HPUC (see Notes 6 and 10). Such balances are amortized over the period specified by the HPUC.

Memberships – In accordance with the Cooperative's bylaws, all electricity users can elect whether or not to become a member. Each member is entitled to one vote regardless of billing amounts.

Asset retirement obligations – The accounting for asset retirement obligations requires the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Under these rules, an obligation occurs when a legally binding retirement obligation exists under enacted laws, statutes, written contracts or oral contracts. Asset retirement obligations (AROs) are recognized at fair value as incurred and capitalized as a component of the cost of the related tangible long-lived assets with a corresponding amount recorded as a liability.

Patronage capital – Net margins are assigned to individual Cooperative members' capital credit accounts based upon their pro rata use of total Cooperative electricity provided for the year (see Note 7). Capital credits are returned to members in accordance with the Cooperative's policies. Under the provisions of the mortgage agreements, the return to patrons of capital contributed by them is limited generally to 25% of margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 31.81% and 33.85% of the total assets at December 31, 2022 and 2021, respectively. The equity percentage is based on unconsolidated assets and equity of the Cooperative. Under the provisions of the 2010 HPUC approved rate case, subject to the loan agreements, the Cooperative is required to return patronage capital for amounts exceeding a 2.00 TIER in a given year.

Electric plant, acquisition cost, depreciation, amortization and maintenance – Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor and materials, and overhead items (see Note 3). Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

In accordance with RUS accounting regulations, electric plant acquisition costs represent the difference between the purchase price for the acquisition of KE's assets and the carrying value of those assets. This amount is being amortized over the remaining useful life of the assets acquired which was originally estimated to be 25 years.

Provision has been made for depreciation of electric plant at a straight-line composite rate by asset category averaging approximately 2.9% per annum. A depreciation study was conducted in August 2013 and was approved by the HPUC in December 2018. The effective date of the new depreciation rates was January 1, 2019. Depreciation for the years ended December 31, 2022 and 2021 was $19,584,279 and $19,347,205, respectively, of which $19,014,017 and $18,808,331 was charged to depreciation and amortization expense and $570,262 and $538,874 was allocated to other accounts, respectively.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation. Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and capital accounts. Management assesses impairment and the existence of asset retirement obligations annually and as circumstances warrant.

Investments in associated organizations – Investments in associated organizations are carried at cost (see Note 4), plus capital credits allocated and not retired.

Rural economic development loans – The Cooperative has received Rural Economic Development Grants (RED Grant) from the USDA Rural Development (USDA RD) Office in order to provide loans to promote sustainable rural economic development and job creation projects. The Cooperative is required to match 20% of the RED Grant award. The RED Grant is awarded to the Cooperative, who in turn loans the funds to the eligible project applicant at 0% interest for a term of up to ten years. When the loan recipient repays the loan, the loan funds are retained and placed into the Revolving Loan Fund (RLF) and then reused to fund new loans to additional projects (RLF Loans). The RLF Loans are made in accordance with the USDA RD approved Revolving Loan Fund Plan Loan Policies and Procedures Manual. Both the RED Grant loans and the RLF loans are stated at cost (see Note 4).

Cash equivalents – The Cooperative considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents, beginning of year, reported on the Statement of Cash Flows includes both cash and cash equivalents and restricted cash.

Restricted cash – Restricted cash is restricted for rural economic development loans and developer security deposits.

Other investments – Other investments consist of medium term notes held with CFC with interest rates ranging from 3.33% to 4.04%, maturating through 2023.

Accounts and notes receivable – Accounts and notes receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated considering the Cooperative's historical losses, review of specific problem accounts, existing economic conditions and the financial stability of its customers. Generally, the Cooperative considers accounts receivable past due after 30 days.

Inventories – Materials and supplies inventories consist primarily of items for construction and maintenance of electric plant and are valued at average unit cost. Fuel inventories consist of naphtha and diesel fuel for the generation units and are valued at lower of cost or net realizable value (see Note 5).

Preliminary survey and investigation charges – Preliminary Survey and Investigation (PSI) Charges, included under Deferred Debits, include costs for preliminary surveys, plans, and investigations made for the purpose of determining the feasibility of proposed construction projects. The portion pertaining to plant which is actually constructed is charged to Construction Work in Progress. Any portion pertaining to projects that are abandoned is charged to the appropriate operating expense account (see Note 6).

Accrued vacation – The Cooperative accrues accumulated unpaid vacation as the obligation is incurred. Compensated absences are included in "accrued employee compensation."

Customer advances for construction – Customer advances for construction represent advances for construction jobs that the customer requested, such as line extensions. The customer advance is held in a deferred credit account until the requirements have been met, at which time the advance, or applicable proportion of the advance, is refunded. If the requirements are not met within a five-year time period, the advance is forfeited by the customer and credited to electric plant.

Overhaul accounting – In accordance with an HPUC Decision & Order, the Cooperative accrues for overhaul costs on the generation equipment by charging a proportion of the estimated cost of the overhaul, over the period covered by the overhaul cycle, to maintenance expense. The overhaul cycle for the individual generation units vary based on the type of unit and hours of use. For most generation units, the typical overhaul cycle is every two to five years. When the overhaul occurs, the actual costs are charged against the overhaul deferred credit (regulatory liability – scheduled plant maintenance), with any leftover being charged to maintenance expense (see Note 10).

Post-retirement benefits – The Cooperative sponsors a Retiree Welfare Benefit Plan (the Plan). The Cooperative accounts for the Plan by reporting the current economic status (the overfunded or underfunded status) of the Plan in the balance sheets and measuring the Plan assets and Plan obligations as of the balance sheets date (see Note 14).

Taxes – The Cooperative is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code, except to the extent of unrelated business income, if any. The Cooperative adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. As of December 31, 2022 and 2021, the Cooperative does not have any uncertain tax positions. The Cooperative files an exempt organization and unrelated business income tax return in the U.S. federal jurisdiction and the corporate subsidiaries file a corporate return with the U.S. federal and state of Hawaii jurisdictions.

The Cooperative is not exempt under Hawaii Revised Statutes from state income taxes; however, margins that are allocated within a specific time period are considered a deduction for state income tax purposes. For the State of Hawaii, the Cooperative is also assessed a 5.885% of gross revenues Public Service Company Tax in lieu of general excise taxes and county real property taxes. Also, the Cooperative is assessed a 0.5% of gross revenues Public Utility Commission Fee. For the County of Kaua'i, Hawaii, the Cooperative is assessed a 2.5% franchise fee on gross revenues.

KRS One is a Delaware limited liability company that has elected to be treated as a corporation for federal tax purposes. KRS One has federal tax net operating losses of approximately $39.4 million as of December 31, 2022. The federal tax net operating asset consists primarily of net operating losses of approximately $1.4 million offset by a K-1 flowthrough liability of approximately $667,000. A valuation allowance has been recorded to offset the deferred tax asset related to the tax net operating losses due to the uncertainty of the ability for the Company to generate future taxable profits to utilize the tax benefit.

KRS Two Holdings is a Delaware limited liability company that has elected to be treated as a corporation for federal tax purposes. KRS Two Holdings has federal tax net operating losses of approximately $6.4 million as of December 31, 2022. A valuation allowance has been recorded to offset the deferred tax asset related to the tax net operating losses due to the uncertainty of the ability for the Company to generate future taxable profits to utilize the tax benefit.

Electric revenues and unbilled revenue – The Cooperative recognizes revenues based on rates (tariffs) authorized by the HPUC including unbilled revenue, revenue from electric power delivered but not yet billed to the customers. The Cooperative's obligation to sell electricity to its customers generally represent a single performance obligation representing a series of distinct goods that are substantially the same and have the same pattern of transfer to the customers that are satisfied over time as the customers simultaneously receives and consumes the benefits provided.

The Cooperative applies the invoice method to measure its progress towards satisfactorily completing its performance obligations to transfer each distinct delivery of electricity in the series to the customers. Revenue is recorded through the balance sheet date.

The Cooperative's tariffs for electric service include energy rate adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of fuel. In order to match power costs and related revenues, under-collected or over-collected power costs to be billed or credited to consumers in subsequent periods is recognized as a current asset or current liability and as an increase or decrease of classified operating revenues on the statement of operations.

Leases - On January 1, 2022, the Cooperative adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 842, *Leases* (Topic 842), to those leases that were not completed as of January 1, 2022. Results for reporting periods beginning after January 1, 2022, will be presented under Topic 842, while prior period amounts will not be adjusted and continue to be reported under the accounting standards in effect for the prior period. On January 1, 2022, the Cooperative recorded the initial right-of-use (ROU) asset and lease liability for $17,952,230. Refer to Note 12 – Commitment and Contingencies for further discussion.

Under Topic 842, the Cooperative determines whether the arrangement is or contains a lease at inception. Operating and finance leases will be recognized on the balance sheets as ROU assets and lease liabilities. ROU assets represent the Cooperative's right to use an underlying asset for the lease term and lease liabilities represent the Cooperative's obligation to make lease payments arising from the lease. Lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease term. For this purpose, the Cooperative considers only payments that are fixed and determinable at the time of commencement. The lease ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Cooperative will utilize a weighted average cost of capital rate, as permitted by Topic 842. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Cooperative will exercise that option.

The Cooperative adopted the standard using the modified retrospective transition approach. The new standard provides for a number of practical expedients in transition. The Cooperative elected the package of practical expedients, which permits the Cooperative to not reassess under the new standard prior conclusions about lease identification, lease classification, and initial direct costs. The Company also elected the use-of-hindsight and elected the practical expedient to not separate lease and non-lease components on real estate leases where the Cooperative is the lessee. The Cooperative did not elect the practical expedient pertaining to land easement as it is not applicable.

Sales for resale – KRS One and Two's primary revenue source is generated through the sale of electricity to a sole customer, the Cooperative, a related party, in accordance with the Purchase Power Agreements (PPA). KRS One and Two recognizes revenues based on the PPA rate authorized by the HPUC. KRS One and Two's obligation to sell electricity to its customer generally represents a single performance obligation representing a series of distinct goods that are substantially the same and have the same pattern of transfer to the customer that is satisfied over time as the customer simultaneously receives and consumes the benefits provided. KRS One and Two apply the invoice method to measure its progress towards satisfactorily completing its performance obligations to transfer each distinct delivery of electricity in the series to the customer. Revenue is recorded through the balance sheet date.

Cushion of credit – RUS established a Cushion of Credit Payment Program, whereby borrowers may make advance payments on their RUS and Federal Financing Bank (FFB) notes. These advance payments earned interest at the rate of 5.0% per annum until September 30, 2020. Beginning October 1, 2020, the interest rate was reduced to 4.0% per annum. Beginning October 1, 2021, the interest rate was reduced to the one-year Treasury interest rate in effect on October 1, 2021 and shall be reset at the one-year Treasury interest rate on October 1st each year thereafter. On October 1, 2022 the one-year Treasury interest rate was 4.01%. The advance payments, plus any accrued interest, can only be used for the payment of principal and interest on the notes. The Cooperative's participation in the Cushion of Credit Payment Program totaled approximately $6.3 million and $15 million at December 31, 2022 and 2021, respectively, and is recorded as a reduction of RUS long-term debt on the consolidated balance sheets.

Environmental matters – The Cooperative is subject to federal, state and local environmental laws. These laws regulate the discharge of materials into the environment and may require the Cooperative to mitigate the effects of a release of a hazardous substance. Environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In general, costs related to environmental matters are charged to expense. Environmental costs are capitalized if the costs increase the value of the property and/or prevent or mitigate contamination from future operations. Although the level of future expenditures for environmental matters is difficult to determine, it is management's opinion that such costs when determined will not have a material adverse effect on the Cooperative's financial condition. Accordingly, no provision has been included in the accompanying consolidated financial statements.

Concentration of credit risk – Financial instruments that are exposed to concentrations of credit risk consist primarily of cash, including other investments, and receivables.

The Cooperative maintains its cash in deposit accounts in various financial institutions and its other investments in highly rated securities. At times these balances exceed federally insured limits.
Credit is extended to customers generally without collateral requirements; however, the Cooperative requires a deposit from some members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit only accrues interest if held longer than the establishment of 12 months of good payment history and is returned along with any accrued interest periodically. In addition, formal shut-off procedures are in place.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include the allowance for doubtful accounts, unbilled revenue, overhaul deferrals, the post-retirement benefit obligation, asset retirement obligation, depreciation of electric plant and weighted average cost of capital rate. Actual results could differ from those estimates.

Fair value measurements – The Cooperative has determined the fair value of certain assets and liabilities in accordance with the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability. The Cooperative's policy is to recognize significant transfers between levels on the date of the transfer. Other investments are considered level 2 inputs.

Subsequent events – The Cooperative has evaluated subsequent events through March 30, 2023, the date the consolidated financial statements were available to be issued.

Note 3 – Electric Plant in Service

The major classes of electric plant in service are as follows at December 31:

	2022	2021
Production plant	$ 228,226,310	$ 227,241,649
Transmission plant	96,899,955	94,040,220
Distribution plant	229,026,733	229,424,372
General plant	49,172,428	48,370,921
Asset retirement costs	2,237,197	2,237,197
Total electric plant in service	$ 605,562,623	$ 601,314,359

Note 4 – Other Property and Investments

Other investments consisted of the following at December 31:

	2022	2021
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation		
Capital term certificates		
Subscription capital term certificates		
(3% interest, matures 2085)	$ 412,000	$ 412,000
Zero term capital certificates (0% interest, mature 2024)	164,800	164,800
Member capital securities (5% interest, first call date 2024, mature 2044)	250,000	250,000
Patronage capital	1,035,289	943,654
Membership	1,000	1,000
Other	161,981	168,497
	2,025,070	1,939,951
Rural economic development loans		
National Tropical Botanical Gardens 2	172,500	217,500
Na Pali Brewing	471,601	-
YWCA	-	30,000
Island School 2	323,333	360,000
	967,434	607,500
Total other investments	$ 2,992,504	$ 2,547,451

Note 5 – Inventories

Inventories consisted of the following at December 31:

	2022	2021
Materials and supplies	$ 20,667,121	$ 17,378,619
Fuel	1,817,735	1,681,328
Total inventories	$ 22,484,856	$ 19,059,947

Note 6 – Deferred Debits

Deferred debits consisted of the following at December 31:

	2022	2021
Regulatory asset – Iniki damage	$ -	$ 219,132
Regulatory asset – demand-side management (DSM) and integrated resource plan (IRP)	29,014	168,507
Regulatory asset – suspension of disconnections	-	373,892
Regulatory asset – COVID-19 (LGM)	12,781,573	13,532,996
Regulatory asset – pension costs	9,543,932	8,371,906
DHHL Lease Road Fund	713,333	753,333
HCDC Joint Development fee	107,000	113,000
Preliminary survey and investigation	10,134,502	10,592,886
Other deferred debits	1,033,819	164,153
Total deferred debits	$ 34,343,173	$ 34,289,805

Regulatory asset – Iniki damage relates to costs of utility plant destroyed in 1992 that were approved by the HPUC in 1996 to be deferred over twenty-six years. The regulatory asset is being amortized to depreciation expense and the regulatory liability (Note 10) is being amortized to accumulated depreciation. Amortization was fully reached during 2022, with total amortization of $219,132.

As part of the 2009 rate case, the HPUC approved a maximum amount of annual pension plan costs to be included in rates. The rate case also required the Cooperative to establish a tracking mechanism to record changes in costs beginning in January 2010 as a regulatory asset. The treatment of the accumulated balance in the regulatory asset will be addressed in the next rate case (See Note 15).

During 2020, the Cooperative also received regulatory approval to defer costs associated with suspension of disconnections and loss gross margin (LGM). These costs will be included in a future application for recovery.

Preliminary survey and investigation includes approximately $7.1 million in costs as of December 31, 2022, and $8.6 million in costs as of December 31, 2021, related to a hydro facility that is currently in the site-control study, engineering, environmental review, and permitting phase in addition to engineering and related costs for other planned projects. In 2020, the Cooperative signed agreements with AES West Kaua'i Energy Project, LLC (Developer), for the development, construction, and operation of the Cooperative's solar pumped storage hydro project, also known as the West Kaua'i Energy Project (WKEP). One of those agreements was a Development Agreement which conveys, assigns and transfers all of the Development Assets to the Developer. In consideration, the Developer will make various payments to the Cooperative after the achievement of predefined milestones. The total of the milestone payments will reimburse the Cooperative for the hydro facility PSI cost incurred. In 2021, the Cooperative wrote off $1.5 million in PSI cost incurred that were greater than the agreed upon milestone payments. Construction of the hydro facility is expected to begin in 2024. Deferred preliminary survey and investigation costs are capitalized to construction in progress when the construction phase begins or expensed if the project is abandoned.

Note 7 – Patronage Capital

Patronage capital consisted of the following at December 31:

	2022	2021
Assigned to date	$ 169,004,915	$ 160,708,063
Assignable	3,172,759	8,296,852
Total	172,177,674	169,004,915
Retired to date	(37,463,969)	(35,444,663)
Balance	$ 134,713,705	$ 133,560,252

Note 8 – Long-Term Debt

The Cooperative has long-term debt due to FFB, National Rural Utilities Cooperative Finance Corporation (CFC), CoBank, ACB and National Cooperative Services Corporation (NCSC). Substantially all assets of the Cooperative are pledged as security for the long-term debt and the notes are subject to certain covenants.

Following is a summary of long-term debt at December 31:

	2022	2021
Fixed and variable notes payable due to FFB in quarterly installments of principal and interest with rates ranging from 2.574% to 4.430%, maturing December 31, 2023	$ 2,457,697	$ 5,410,217
Fixed and variable notes payable due to FFB in quarterly installments of principal and interest with rates ranging from 2.424% to 3.334%, maturing December 31, 2042	62,828,365	65,750,692
Fixed and variable notes payable due to FFB in quarterly installments of principal and interest with rates ranging from 1.326% to 3.437%, maturing December 31, 2051	58,119,718	43,189,025
Fixed note payable due to CFC in quarterly installments of principal and interest at a rate of 3.69%, maturing September 30, 2023	411,998	942,796
Fixed note payable due to CFC in monthly installments of principal and interest at a rate of 2.55%, maturing March 31, 2035	78,215,177	83,586,921
Fixed note payable due to CFC in monthly installments of principal and interest at a rate of 2.760%, maturing December 31, 2049	24,856,071	25,468,298
Fixed note payable due to CoBank in monthly installments of principal and interest rate of 2.90%, maturing February 20, 2051	17,407,803	17,799,526
Fixed note payable due to CoBank in monthly installments of principal and interest rate of 3.33%, maturing February 10, 2052	4,819,612	-
RUS/FFB advance payments (cushion of credit)	(6,274,173)	(15,041,771)
Fixed note payable due to NCSC in quarterly installments of principal and interest at a rate of 4.650%, maturing June 30, 2039	12,952,099	13,463,463
Total long-term debt	255,794,367	240,569,167
Less current maturities	(13,795,833)	(14,422,637)
Long-term debt, less current maturities	$ 241,998,534	$ 226,146,530

KRS Two has a loan with the NCSC, an affiliate of the CFC, to provide permanent financing for the solar project. Substantially all assets of KRS Two are pledged as security for the loan and the loan is subject to financial covenants. The Cooperative has provided NCSC with a guaranty of the indebtedness of KRS Two to NCSC.

Principal maturities of long-term debt for the next five years and thereafter are as follows:

2023	$ 13,795,833
2024	11,233,584
2025	11,528,575
2026	11,847,573
2027	12,152,815
Thereafter	201,510,160
	$ 262,068,540

Note 9 – Line-of-Credit

The Cooperative has a perpetual secured $60,000,000 disaster line-of-credit, a perpetual unsecured $5,000,000 line-of-credit for short-term financing, a 5-year unsecured $20,000,000 line-of-credit for construction financing with CFC at variable interest rates ranging from 2.70% to 5.75% at December 31, 2022. The CFC disaster line-of-credit is secured by substantially all Cooperative assets. The CFC lines are subject to termination provisions and certain covenants. The total balance outstanding was $0 at December 31, 2022 and 2021.

The Cooperative also has a 1-year unsecured $15,000,000 line-of-credit for working capital with CoBank at variable interest rate of 6.35% at December 31, 2022. The total balance outstanding was $0 at December 31, 2022 and 2021.

Note 10 – Deferred Credits

Deferred credits consisted of the following at December 31:

	2022	2021
Rural economic development grant	$ 1,896,506	$ 1,895,319
Right of entry deposit	6,305	6,305
Customer advances for construction	4,750,983	5,249,453
Regulatory liability – Iniki	-	219,132
Regulatory liability – scheduled plant maintenance	4,255,385	3,918,410
Total deferred credits	$ 10,909,179	$ 11,288,619

Note 11 – Asset Retirement Obligation

For the year ended December 31, 2014, KRS Two completed an asset retirement obligation (ARO) calculation with the assumption that the assets will be in service through the year 2044. The useful life expectations used in the calculations of the ARO are based on the assumption that operations will continue without deviation from historical trends. As of December 31, 2014, the ARO capitalized asset and the offsetting ARO liability were established at present value. The ARO asset will be depreciated through 2044 on a straight line basis and the ARO liability will be accreted through 2044 using a discount rate and effective interest method.

In 2015 KRS Two was able to obtain a more accurate estimate of the decommissioning costs by surveying the contractors who built KRS Two's Koloa Solar Farm and KRS One's Anahola Solar Farm. Based on the estimates from the two independent nationwide contractors, KRS Two revised its estimate of the decommissioning costs, resulting in a $698,556 decrease to the present value of the ARO capitalized asset and offsetting ARO liability.

For the year ended December 31, 2015, KRS One completed an asset retirement obligation (ARO) calculation with the assumption that the assets will be in service through the year 2040. The useful life expectations used in the calculations of the ARO are based on the assumption that operations will continue without deviation from historical trends. As of December 31, 2015, the ARO capitalized asset and the offsetting ARO liability were established at present value. The ARO asset will be depreciated through 2040 on a straight line basis and the ARO liability will be accreted through 2040 using a discount rate and effective interest method.

The following table provides a reconciliation of the beginning and ending ARO liability for 2022 and 2021:

	2022	2021
Balances at January 1	$ 2,846,406	$ 2,740,170
Accretion of ARO liability	111,514	106,236
Balances at December 31	$ 2,957,920	$ 2,846,406

Note 12 – Litigation, Commitments, and Contingencies

Litigation – In the normal course of business, the Cooperative is a party to claims and matters of litigation. The ultimate outcome of these matters cannot presently be determined; however, in the opinion of management of the Cooperative, the resolution of these matters will not have a material adverse effect on the Cooperative's financial position, results of operations or liquidity.

Litigation arbitration – In 2021 KIUC was party to an arbitration with one of its suppliers. A judgement was issued in favor of the supplier. KIUC is appealing the arbitration. KIUC does not expect the arbitration award to have a material impact on the it's financials. No accrual has been made in the financials due to the uncertainty of the outcome as of December 31, 2022.

Fuel contract – As a result of the purchase of KE assets, Citizens assigned to the Cooperative a fuel supply contract with an international oil refining company that is renewable for 12-month periods unless terminated by the Cooperative or the supplier; 100% of the Cooperative's fuel is obtained through this supply contract. The price is adjusted monthly to equal a published price, as defined, plus other defined costs such as terminal and freight costs. Fuel costs under this contract for the years ended December 31, 2022 and 2021, were $44,634,806 and $29,894,685, respectively.

Power supply – 43% of the Cooperative's power in 2022 is generated using diesel and naphtha generating units. In addition, the Cooperative maintains various power supply agreements to purchase power from hydroelectric, biomass and photovoltaic projects. The terms of the agreements vary and include termination provisions.

In 2011, the Cooperative created a wholly owned subsidiary, KIUC Renewable Solutions One LLC (KRS One). KRS One developed a 14.5 MWdc solar photovoltaic facility with an integrated Battery Energy Storage System and associated interconnection facilities on a 55-acre parcel of land leased from the State of Hawaii, Department of Hawaiian Home Lands located in Anahola, Kauai, Hawaii. The output of the project provides 12 MWac of peak power for the electric system on Kauai, an amount that represents about 5% of total energy consumption and would power approximately 4,000 homes. The solar project was built for KRS One under an Engineering Procurement and Construction contract with REC Solar, Inc. and was placed in service in October 2015. This project is estimated to have a 25-year life.

In 2011, the Cooperative signed an agreement to purchase power from a proposed 6.7 MW biomass-to-energy facility located near Koloa. The biomass-to-energy plant contributes firm capacity to the Cooperative's system and provides more than 11% of Kauai's energy needs. The biomass plant supplies enough electricity to power 8,500 homes, annually replacing about 3.7 million gallons of imported fossil fuel. This project is the first closed-loop biomass-to-energy plant in the United States and is considered to be carbon neutral. The project maximizes the use of natural fertilization processes, including intercropping with alternate rows of nitrogen-fixing trees and the use of fertilizers created as a byproduct of the plant combustion cycle. The biomass fuel is supplied primarily by more than 2,500 acres of short-rotation crops grown on Kaua'i. The facility was placed in service in January 2016. The contract includes a fixed-price per MWh power purchase agreement with a term of 20 years in addition to a monthly capacity charge. The annual capacity charge is $5.7 million per year over the life of the initial term of the agreement. This capacity charge is subject to adjustment based on the terms of the agreement. Total power payments were $13,553,495 and $12,603,789 during the years ended December 31, 2022 and 2021, respectively.

In 2012, the Cooperative created a wholly owned subsidiary, KIUC Renewable Solutions Two LLC (KRS Two). KRS Two developed a 14.3 MWdc solar photovoltaic facility and associated interconnection facilities on a 67-acre parcel of land leased from Grove Farm Co., Inc. near Koloa, Kaua'i, Hawaii. The output of the project provides 12 MWac of peak power for the electric system on Kaua'i, an amount that represents about 5% of total energy consumption and would power approximately 4,000 homes. The solar project was built for KRS Two under an Engineering Procurement and Construction contract with SolarCity and was placed in service in September 2014. The project is expected to have a 25-year life.

In 2015, the Cooperative signed an agreement to purchase power from a proposed 13 MW dispatchable solar storage facility located adjacent to the Cooperative's Kapaia power station. The utility-scale solar array and battery storage system allows the Cooperative to use stored solar energy to displace fossil fuel generation in the evening hours and is believed to be the first utility-scale dispatchable solar system in the United States. The facility was placed in service in May of 2017. The contract includes a fixed-price per MWh power purchase agreement with a term of 20 years.

During 2016, the Cooperative signed an agreement to purchase power from a dispatchable solar storage facility. The project combined 28 MWdc of solar capacity with a 20 MWdc five-hour duration energy storage system to help the Cooperative shift solar energy into the evening peak hours. The facility was placed into service December 2018. This contract includes a fixed-price per MWh power purchase agreement with an initial term of 25 years.

In addition to power purchased from wholly owned subsidiaries and third party operated facilities, the Cooperative has agreements with other entities for the purchase of hydroelectric and solar photovoltaic power. Total payments under these fixed-price per MWh power purchase agreements were $27,219,190 and $26,722,807 during the years ended December 31, 2022 and 2021, respectively.

In 2014, the Cooperative signed an agreement to continue to purchase power from an existing 1.25 MW hydroelectric generating facility and to purchase power from its proposed 6 MW expansion hydroelectric generating facility, which was constructed in 2018. The contract includes a fixed-price per MWh power purchase agreement with an initial term of 25 years. The facility was placed in service January 2019.

In 2017, the Cooperative signed an agreement to purchase power from a proposed 19.3 MWdc solar photovoltaic and 14 MWac five-hour duration battery energy storage system located on the Pacific Missile Range Facility on the western side of the island in the town of Kekaha. The utility-scale solar array and battery storage system will allow KIUC to use stored solar energy to displace fossil fuel generation in the evening hours. The facility was placed into service March 2021. This contract includes a fixed-priced per MWH power purchase agreement with an initial term of 25 years.

In 2020, the Cooperative signed agreements for the development, construction, and operation of the cooperative's solar pumped storage hydro project, also known as the West Kauaʻi Energy Project (WKEP) and for the purchase of power from WKEP once it is operational. WKEP is an integrated renewable energy and irrigation project with several key components: renewable energy production via hydropower and solar photovoltaic generation, coupled with pumped hydropower and battery energy storage to shift most of the project's output into the nighttime peak. This project will offset the use of 8.5 million gallons of fossil fuels annually and supply irrigation water delivery to support diversified agriculture on state-owned lands. The project will also rehabilitate the existing Puʻu ʻŌpae, Puʻu Lua, and Mānā Reservoirs and the related ditch system infrastructure. In addition, historic diversion structures in Kokeʻe will be modified to restore and increase flow to the Waimea River in compliance with the instream flow standard established by the Waimea Watershed Agreement and adopted by the Commission on Water Resources in April 2017. When operational, the solar array will contribute up to 35 megawatts directly to the grid and will store up to 240 megawatt hours for dispatch during evening peak. The hydro resources are expected to produce 24 megawatts on average daily, which includes 12 hours of storage to be used overnight. This long-duration storage capacity will allow the island to run on 100% renewable energy for prolonged periods without sunlight and will provide additional grid stability by balancing intermittent solar with firm hydropower. WKEP is expected to meet roughly 25% of Kauaʻi's electricity needs and will move Kauaʻi beyond 80% renewable generation. Environmental studies for WKEP have been ongoing. The facility is anticipated to be constructed in 2024 and 2025. The purchase power contract includes 3 Facility components that each have different terms as follows: 1) the PV System and BESS components of the Facility contain a fixed-price per MWh and have a term of 25 years from the PV System/BESS/Pumped Storage Hydropower commercial operation date, 2) the Pumped Storage Hydropower component of the Facility contains a capacity charge that is subject to adjustment based on the terms of the agreement and has a term of 40 years from the PV System/BESS/Pumped Storage Hydropower commercial operation date, and 3) the Hydropower-only component of the Facility contains a capacity charge that is subject to adjustment based on the terms of the agreement and has a term of 50 years from the Hydropower-only commercial operation date.

Union contract – The Cooperative has an agreement with one union. As of December 31, 2022, 61% of the positions and 60% of the employees were covered by the union contract. The agreement expires in December 2023.

Operating leases – The Cooperative leases their headquarters under a non-cancelable operating lease which expires in 2030 and contains options to extend the term up to an additional 15 years. The lease also includes an option to purchase the landlord's interest, as defined, in the year 2025. The lease obligation has been calculated through 2025.

The Cooperative also leases land for a service center which expires in 2040, with an option to extend the term up to an additional 30 years, for a total of 55 years. The lease obligation has been calculated through 2070.

KRS One leases the land upon which their solar facility is located and a substation under a non-cancelable operating lease which expires in 2040.

KRS Two leases the land upon which their solar facility is located under a non-cancelable operating lease which expires in 2040 and contains an option to extend the term an additional 5 years. The lease has been calculated through 2040.

As of December 31, 2022, the future minimum lease commitments under these leases are as follows:

2023	$ 1,343,136
2024	1,345,333
2025	1,468,570
2026	1,376,396
2027	1,427,184
Thereafter	19,316,689
Total future minimum lease payment	26,277,308
Less present value discount	(8,962,764)
Total lease liabilities	17,314,544
Less current portion	674,238
Long-term lease liability	$ 16,640,306

Cash paid for amounts included in the measurements of lease liabilities	
Operating cash flow from operating leases	$ 1,341,002
Weighted-average remaining lease term in years for operating leases	20.14
Weighted-average discount rate for operating leases	4.21%

In addition to the amounts above, the Cooperative is responsible for common area maintenance costs, real property taxes and other reimbursable operating expenses. Rent expense for the years ended December 31, 2022 and 2021, was $2,007,283 and $1,627,046, respectively.

Note 13 – Pension Benefits

Effective November 1, 2002, the Cooperative adopted a retirement program available for all employees meeting length of service requirements. The program is a multi-employer plan administered by the National Rural Electric Cooperative Association (NRECA) and includes a non-contributory defined benefit pension and a contributory defined contribution 401(k) plan. Approximately 1,000 rural electric systems participate in each of these plans. Withdrawal from the plan may result in the Cooperative having a significant obligation to the program. The Cooperative does not currently intend to withdraw from the plan and, accordingly, no provision has been included in the accompanying consolidated financial statements.

RS Plan disclosure information for the Retirement Security Plan – The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the 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.

Plan information – The Cooperative's contributions to the RS Plan in 2022 and in 2021 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $3,812,625 in 2022 and $4,103,156 in 2021. There have been no significant changes that affect the comparability of 2022 and 2021 contributions.

In 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 Retirement Security Plan was over 80 percent funded at January 1, 2022 and 2021, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Disclosure information for the NRECA 401(k) plan – The NRECA 401(k) permits elective contributions up to 100% of the participant's salary to a maximum of $19,500. These limits do not include certain catch-up provisions and provides the Cooperative will match 50% of the first 8% of employee base pay contributions. The Cooperative employer portion of the 401(k) plan contributions for 2022 and 2021 totaled $596,103 and $589,996, respectively.

Note 14 – Post-Retirement Benefits

The Cooperative's Retiree Welfare Benefit Plan (the Plan) and its associated trust, the KIUC Retiree Welfare Benefit Trust (the Trust), were adopted effective January 1, 2003. The Plan provides certain non-contributory medical (which includes a dollar cap, for which retirees pay back the Cooperative for amounts exceeding the cap), dental, vision and life insurance benefits for retired employees, their beneficiaries, and covered dependents. Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid for the years ended December 31, 2022 and 2021, were $293,815 and $257,179, respectively. The measurement date for the current valuation is December 31, 2022.

Weighted-average assumptions used to determine the net periodic benefit cost for the year ended December 31, 2022:

- Discount rate: 5.00% and 2.80% as of December 31, 2022 and 2021, respectively
- Expected long-term return on plan assets: 3.47% (based on the ten-year performance of the funds, weighted by market value as of December 31, 2022)
- Health care cost trend rate assumed for next year: 6.63% for pre-age 65 and 4.00% medical and 5.00% drug for post-age 65
- Rate to which the cost trend rate is assumed to decline (the ultimate trend rate): 5.00% for pre-age 65 and 4.00% for post-age 65

	2022	2021
Net post-retirement benefit cost		
Interest cost	$ 97,322	$ 94,317
Expected return on plan assets	(110,123)	(137,466)
Recognized net actuarial expense	31,166	45,142
Net post-retirement benefit cost	$ 18,365	$ 1,993
Accumulated post-retirement benefit obligation (APBO)		
APBO balance at the beginning of year	$ (3,769,281)	$ (4,020,336)
Interest costs	(97,322)	(94,317)
Actuarial gain	387,249	88,193
Benefits paid	293,815	257,179
APBO balance at the end of year	$ (3,185,539)	$ (3,769,281)
Reconciliation of funded status		
APBO	$ (3,185,539)	$ (3,769,281)
Assets funded	3,206,145	3,983,784
Accrued post-retirement funded status	$ 20,606	$ 214,503
Accumulated comprehensive other loss		
Unrecognized prior loss	$ 864,936	$ 1,028,145
Amortization of gains and losses	(31,166)	(45,142)
Actuarial gain (loss)	243,021	(118,067)
Accumulated other comprehensive loss	$ 1,076,791	$ 864,936

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

2023	$ 296,095
2024	290,055
2025	282,740
2026	278,095
2027	273,051
2027-2031	1,242,271
	$ 2,662,307

The Plan assets are held in the Trust and are invested in the Central Pacific Bank's Trust Division at December 31, 2022.

The Plan assets are managed by a trustee and are authorized to be held in various equity and fixed income investments and cash equivalents. The trustee is not allowed to invest in real estate or any other investment other than those noted in the investment policy. The investing strategy is long-term with a focus on moderate volatility and moderate growth investments. All investments at December 31, 2022 and 2021, were Level 1 investments as outlined in the fair value hierarchy as they have quoted prices in active markets for identical assets. The following table shows the investment allocation for Plan assets:

	2022	2021
Cash and other accrued income	$ 97,458	$ 1,789
Mutual funds	1,862,275	217,518
Bonds	1,246,412	3,764,477
	$ 3,206,145	$ 3,983,784

Note 15 – Rate Action

The Cooperative has submitted an application for increase in rates with the Hawaii Public Utility Commission (HPUC). The Commission is required to provide interim rates no later than ten to eleven months from the date the application has been accepted as complete. As of the date of this report, HPUC determined that the application is complete with a completed filing date of December 28, 2022.

Supplementary Information

Kaua’i Island Utility Cooperative
Consolidating Balance Sheets
December 31, 2022

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
ASSETS					
ASSETS					
Utility plant					
In service	$ 526,739,981	$ 39,698,607	$ 39,124,035	$ -	$ 605,562,623
Right of use asset - operating lease	13,522,005	2,496,064	1,160,759	-	17,178,828
Plant acquisition cost	54,852,453	-	-	-	54,852,453
Less accumulated depreciation	(335,406,265)	(13,248,807)	(12,639,298)	-	(361,294,370)
Total utility plant	259,708,174	28,945,864	27,645,496	-	316,299,534
Construction work in progress	13,245,623	-	-	-	13,245,623
Net utility plant	272,953,797	28,945,864	27,645,496	-	329,545,157
Other property and investments					
Investments in subsidiary companies	24,136,724	-	-	(24,136,724)	-
Investments in associated organizations	2,003,086	12,179	9,805	-	2,025,070
Rural economic development loans	967,434	-	-	-	967,434
Total other property and investments	27,107,244	12,179	9,805	(24,136,724)	2,992,504
CURRENT ASSETS					
Cash and cash equivalents	33,124,213	480,454	3,228,779	-	36,833,446
Restricted cash and cash equivalents	1,284,552	-	-	-	1,284,552
Other investments	10,000,000	-			10,000,000
Accounts receivable	12,573,543	188,672	289,897	-	13,052,112
Accrued unbilled revenue	9,279,755	-	-	-	9,279,755
Energy rate adjustment clause	89,426				89,426
Inventories	22,484,856	-	-	-	22,484,856
Other current assets	1,302,989	53,490	34,655	-	1,391,134
Total current assets	90,139,334	722,616	3,553,331	-	94,415,281
Post-retirement benefit asset	20,606	-	-	-	20,606
Deferred debits	33,522,840	820,333	-	-	34,343,173
	$ 423,743,821	$ 30,500,992	$ 31,208,632	$ (24,136,724)	$ 461,316,721

Kaua'i Island Utility Cooperative
Consolidating Balance Sheets
December 31, 2022

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
EQUITIES AND LIABILITIES					
EQUITIES					
Controlling equity interest	$ 134,776,827	$ (8,547,224)	$ (1,830,299)	$ 10,377,523	$ 134,776,827
Non-controlling equity interest	-	-	17,724,051	-	17,724,051
Total equities	134,776,827	(8,547,224)	15,893,752	10,377,523	152,500,878
LONG-TERM DEBT, LESS CURRENT MATURITIES					
Loan	229,581,994	34,149,052	12,701,058	(34,433,570)	241,998,534
Operating lease obligation	12,964,646	2,512,625	1,163,035		16,640,306
	242,546,640	36,661,677	13,864,093	(34,433,570)	258,638,840
Asset retirement obligations	-	2,173,415	784,505	-	2,957,920
CURRENT LIABILITIES					
Current maturities of long-term debt	13,260,273	-	535,560	-	13,795,833
Accounts payable	7,831,026	71,859	105,337	-	8,008,222
Current maturities of operating lease obligation	618,559	30,294	25,385	-	674,238
Consumer deposits	1,263,231	-	-	-	1,263,231
Accrued employee compensation	2,663,499	-	-	-	2,663,499
Accrued taxes	8,904,990	-	-	-	8,904,990
Other current and accrued liabilities	969,597	110,971	-	(80,677)	999,891
Total current liabilities	35,511,175	213,124	666,282	(80,677)	36,309,904
Deferred credits	10,909,179	-	-	-	10,909,179
	$ 423,743,821	$ 30,500,992	$ 31,208,632	$ (24,136,724)	$ 461,316,721

Kaua'i Island Utility Cooperative
Consolidating Balance Sheets
December 31, 2021

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
ASSETS					
ASSETS					
Utility plant					
In service	$ 522,496,852	$ 39,696,039	$ 39,121,468	$ -	$ 601,314,359
Plant acquisition cost	54,852,453	-	-	-	54,852,453
Less accumulated depreciation	(325,718,579)	(11,449,478)	(11,086,703)	-	(348,254,760)
Total utility plant	251,630,726	28,246,561	28,034,765	-	307,912,052
Construction work in progress	11,830,945	2,567	2,567	-	11,836,079
Net utility plant	263,461,671	28,249,128	28,037,332	-	319,748,131
Other property and investments					
Investments in subsidiary companies	25,966,145	-	-	(25,966,145)	-
Investments in associated organizations	1,922,442	9,791	7,718	-	1,939,951
Rural economic development loans	607,500	-	-	-	607,500
Total other property and investments	28,496,087	9,791	7,718	(25,966,145)	2,547,451
CURRENT ASSETS					
Cash and cash equivalents	20,886,024	77,577	2,197,382	-	23,160,983
Restricted cash and cash equivalents	1,647,885	-	-	-	1,647,885
Accounts receivable	5,000,000	-	-	-	5,000,000
Accrued unbilled revenue	11,612,390	192,060	235,055	-	12,039,505
Energy rate adjustment clause	8,871,471	-	-	-	8,871,471
Inventories	19,059,947	-	-	-	19,059,947
Other current assets	2,670,907	166,141	127,067	-	2,964,115
Total current assets	69,748,624	435,778	2,559,504	-	72,743,906
Post-retirement benefit asset	214,503	-	-	-	214,503
Deferred debits	33,423,472	866,333	-	-	34,289,805
	$ 395,344,357	$ 29,561,030	$ 30,604,554	$ (25,966,145)	$ 429,543,796

Kaua'i Island Utility Cooperative
Consolidating Balance Sheets
December 31, 2021

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
EQUITIES AND LIABILITIES					
EQUITIES					
Controlling equity interest	$ 133,744,130	$ (7,746,914)	$ (1,689,905)	$ 9,436,819	$ 133,744,130
Non-controlling equity interest	-	-	17,775,258	-	17,775,258
Total equities	133,744,130	(7,746,914)	16,085,353	9,436,819	151,519,388
Long-term debt, less current maturities	213,194,431	35,079,815	13,202,376	(35,330,092)	226,146,530
Asset retirement obligations	-	2,116,361	730,045	-	2,846,406
CURRENT LIABILITIES					
Current maturities of long-term debt	13,911,273	-	511,364	-	14,422,637
Accounts payable	9,554,308	38,896	75,416	-	9,668,620
Energy rate adjustment clause	626,354	-	-	-	626,354
Consumer deposits	1,367,898	-	-	-	1,367,898
Accrued employee compensation	2,714,642	-	-	-	2,714,642
Accrued taxes	7,426,175	-	-	-	7,426,175
Other current and accrued liabilities	1,516,527	72,872	-	(72,872)	1,516,527
Total current liabilities	37,117,177	111,768	586,780	(72,872)	37,742,853
Deferred credits	11,288,619	-	-	-	11,288,619
	$ 395,344,357	$ 29,561,030	$ 30,604,554	$ (25,966,145)	$ 429,543,796

Kaua'i Island Utility Cooperative
Consolidating Statements of Operations
Year Ended December 31, 2022

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
OPERATING REVENUES					
Residential	$ 75,465,976	$ -	$ -	$ -	$ 75,465,976
Irrigation	718,357	-	-	-	718,357
Commercial and industrial	98,190,497	-	-	-	98,190,497
Public street and highway lighting	692,840	-	-	-	692,840
Sale for resale		2,948,501	2,612,567	(5,561,068)	-
Other operating revenues	(259,744)	-			(259,744)
Total operating revenues	174,807,926	2,948,501	2,612,567	(5,561,068)	174,807,926
OPERATING EXPENSES					
Cost of power	103,918,936	680,059	484,350	(5,561,068)	99,522,277
Transmission – operation	521,106	28,518	-	-	549,624
Transmission – maintenance	583,620	429	-	-	584,049
Distribution – operation	1,765,953	232,225	-	-	1,998,178
Distribution – maintenance	4,361,486	48,049	-	-	4,409,535
Customer accounts	2,151,284	-	-	-	2,151,284
Customer service and information	281,668	-	-	-	281,668
Administrative and general	21,728,810	20,170	40,928	-	21,789,908
Depreciation and amortization	15,662,092	1,799,330	1,552,595	-	19,014,017
Taxes	14,718,734	14,744	13,063	-	14,746,541
Accretion expense		57,055	54,460	-	111,515
Other interest expense	-	871,248	-	(871,248)	-
Total operating expenses	165,693,689	3,751,827	2,145,396	(6,432,316)	165,158,596
OPERATING MARGIN (LOSS) BEFORE INTEREST	9,114,237	(803,326)	467,171	871,248	9,649,330
INTEREST ON LONG-TERM DEBT	6,780,697	-	617,220		7,397,917
OPERATING MARGINS (LOSSES)	2,333,540	(803,326)	(150,049)	871,248	2,251,413
NONOPERATING MARGINS					
Interest income	1,508,770	-	-	(871,248)	637,522
Capital credits	196,261	3,016	2,635	-	201,912
Loss from subsidiaries	(940,704)	-	-	940,704	-
Other nonoperating income (expense)	74,892	-	-	-	74,892
Total nonoperating margins	839,219	3,016	2,635	69,456	914,326
NET MARGINS (LOSSES)	3,172,759	(800,310)	(147,414)	940,704	3,165,739
NET MARGINS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-	-	7,020	-	7,020
NET MARGINS (LOSSES) – COOPERATIVE	3,172,759	(800,310)	(140,394)	940,704	3,172,759
COMPREHENSIVE INCOME					
Postretirement benefit obligation gain	211,855	-	-	-	211,855
COMPREHENSIVE INCOME (LOSS)	$ 3,384,614	$ (800,310)	$ (140,394)	$ 940,704	$ 3,384,614

Kaua'i Island Utility Cooperative
Consolidating Statements of Operations
Year Ended December 31, 2021

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
OPERATING REVENUES					
Residential	$ 67,665,717	$ -	$ -	$ -	$ 67,665,717
Irrigation	177,137	-	-	-	177,137
Commercial and industrial	85,127,144	-	-	-	85,127,144
Public street and highway lighting	683,855	-	-	-	683,855
Sale for resale	-	2,786,737	2,508,544	(5,295,281)	-
Other operating revenues	5,133,601	-	-	-	5,133,601
Total operating revenues	158,787,454	2,786,737	2,508,544	(5,295,281)	158,787,454
OPERATING EXPENSES					
Cost of power	86,635,441	710,128	487,894	(5,295,281)	82,538,182
Transmission – operation	433,450	50,400	-	-	483,850
Transmission – maintenance	980,121	197	-	-	980,318
Distribution – operation	1,403,439	324,325	-	-	1,727,764
Distribution – maintenance	4,771,262	32,324	-	-	4,803,586
Customer accounts	2,203,646	-	-	-	2,203,646
Customer service and information	272,391	-	-	-	272,391
Administrative and general	20,090,582	14,304	33,068	-	20,137,954
Depreciation and amortization	15,458,876	1,799,324	1,550,131	-	18,808,331
Taxes	13,346,775	13,933	12,543	-	13,373,251
Accretion expense	-	55,557	50,679	-	106,236
Other interest expense	-	858,002	-	(858,002)	-
Total operating expenses	145,595,983	3,858,494	2,134,315	(6,153,283)	145,435,509
OPERATING MARGIN (LOSS) BEFORE INTEREST	13,191,471	(1,071,757)	374,229	858,002	13,351,945
INTEREST ON LONG-TERM DEBT	6,569,854	-	640,323	-	7,210,177
OPERATING MARGINS (LOSSES)	6,621,617	(1,071,757)	(266,094)	858,002	6,141,768
NONOPERATING MARGINS (LOSSES)					
Interest income	1,350,375	-	-	(858,002)	492,373
Capital credits	235,429	2,791	2,399	-	240,619
Loss from subsidiaries	(1,319,659)	-	-	1,319,659	-
Other nonoperating income (expense)	1,409,090	-	-	-	1,409,090
Total nonoperating margins	1,675,235	2,791	2,399	461,657	2,142,082
NET MARGINS (LOSSES)	8,296,852	(1,068,966)	(263,695)	1,319,659	8,283,850
NET MARGINS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-	-	13,002	-	13,002
NET MARGINS (LOSSES) – COOPERATIVE	8,296,852	(1,068,966)	(250,693)	1,319,659	8,296,852
COMPREHENSIVE INCOME					
Postretirement benefit obligation gain	163,209	-	-	-	163,209
COMPREHENSIVE INCOME (LOSS)	$ 8,460,061	$ (1,068,966)	$ (250,693)	$ 1,319,659	$ 8,460,061

Report of Independent Auditors 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
Kaua'i Island Utility Cooperative

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, of Kaua'i Island Utility Cooperative and Subsidiaries (the "Cooperative") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Kaua'i Island Utility Cooperative and Subsidiaries basic financial statements, and have issued our report thereon dated March 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kaua'i Island Utility Cooperative and Subsidiaries 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kaua'i Island Utility Cooperative and Subsidiaries internal control. Accordingly, we do not express an opinion on the effectiveness of Kaua'i Island Utility Cooperative and Subsidiaries internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Portland, Oregon
March 30, 2023