



REPORT OF INDEPENDENT AUDITORS AND  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

**KAUA'I ISLAND UTILITY COOPERATIVE AND SUBSIDIARIES**

December 31, 2020 and 2019

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Financial Statements</b>	
Consolidated balance sheets	3–4
Consolidated statements of operations	5
Consolidated statements of equities	6
Consolidated statements of cash flows	7–8
Notes to consolidated financial statements	9–29
<b>Supplementary Information</b>	
Consolidating balance sheets – December 31, 2020	30–31
Consolidating balance sheets – December 31, 2019	32–33
Consolidating statements of operations – December 31, 2020	34
Consolidating statements of operations – December 31, 2019	35
<b>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 <i>Government Auditing Standards</i></b>	36–37

## Report of Independent Auditors

The Board of Directors  
Kaua'i Island Utility Cooperative  
Lihue, Kaua'i, Hawaii

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Kaua'i Island Utility Cooperative ("Cooperative"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kaua'i Island Utility Cooperative as of December 31, 2020 and 2019, 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.

**Other Matters***Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Cooperative's consolidated 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 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 supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

**Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

*Miss Adams UP*

Portland, Oregon  
March 31, 2021

# Kaua'i Island Utility Cooperative

## Consolidated Balance Sheets

---

### ASSETS

	December 31,	
	2020	2019
ASSETS		
Utility plant		
Electric plant in service	\$ 569,601,287	\$ 564,460,743
Electric plant acquisition cost	54,852,453	54,852,453
Accumulated depreciation and amortization	<u>(335,297,183)</u>	<u>(320,418,964)</u>
Net electric plant in service	<u>289,156,557</u>	<u>298,894,232</u>
Construction work in progress	<u>30,089,269</u>	<u>11,514,072</u>
Net utility plant	<u>319,245,826</u>	<u>310,408,304</u>
Other property and investments		
Investments in associated organizations	1,811,645	1,685,096
Rural economic development loans	<u>337,500</u>	<u>533,624</u>
Total other investments	<u>2,149,145</u>	<u>2,218,720</u>
CURRENT ASSETS		
Cash and cash equivalents	17,968,559	14,965,696
Restricted cash and cash equivalents	1,614,136	1,420,871
Accounts and notes receivable, less allowance (\$879,696 and \$90,000 as of December 31, 2020 and 2019, respectively)	10,881,315	10,731,858
Accrued unbilled revenue	7,349,891	8,186,977
Energy rate adjustment clause	8,833	-
Inventories	16,334,353	15,175,032
Other current assets	<u>2,012,977</u>	<u>2,033,572</u>
Total current assets	<u>56,170,064</u>	<u>52,514,006</u>
Post-retirement benefit assets	<u>13,384</u>	<u>-</u>
Deferred debits	<u>27,774,550</u>	<u>17,768,525</u>
	<u>\$ 405,352,969</u>	<u>\$ 382,909,555</u>

## Kaua'i Island Utility Cooperative Consolidated Balance Sheets

### EQUITIES AND LIABILITIES

	December 31,	
	2020	2019
<b>EQUITIES</b>		
Controlling equity interest	\$ 126,516,351	\$ 120,269,954
Non-controlling equity interest	17,827,510	18,229,782
Total equities	144,343,861	138,499,736
Long-term debt, less current maturities	214,961,063	191,547,700
Post-retirement benefit obligation	-	341,773
Asset retirement obligations	2,740,170	2,638,910
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	14,064,298	16,638,186
Accounts payable	7,538,593	9,979,444
Energy rate adjustment clause	-	239,490
Consumer deposits	1,283,952	1,413,870
Accrued employee compensation	2,680,504	2,297,599
Accrued taxes	6,221,731	7,192,948
Other current and accrued liabilities	645,895	803,328
Total current liabilities	32,434,973	38,564,865
Deferred credits	10,872,902	11,316,571
	\$ 405,352,969	\$ 382,909,555

# Kaua'i Island Utility Cooperative

## Consolidated Statements of Operations

	Years Ended December 31,	
	2020	2019
<b>OPERATING REVENUES</b>		
Residential	\$ 59,717,210	\$ 63,200,462
Irrigation	183,919	95,379
Commercial and industrial	75,391,161	90,488,809
Public street and highway lighting	665,798	681,986
Other operating revenues	9,188,729	450,840
Total operating revenues	145,146,817	154,917,476
<b>OPERATING EXPENSES</b>		
Cost of power	71,564,840	85,048,216
Transmission – operation	346,338	467,105
Transmission – maintenance	727,483	662,743
Distribution – operation	1,651,701	1,412,194
Distribution – maintenance	4,344,278	4,173,054
Customer accounts	2,225,091	2,006,102
Customer service and information	268,046	288,952
Administrative and general	20,440,998	18,577,720
Depreciation and amortization	18,087,417	17,913,329
Taxes	12,251,285	13,096,209
Accretion expense	101,260	96,565
Total operating expenses	132,008,737	143,742,189
<b>OPERATING MARGIN BEFORE INTEREST</b>	13,138,080	11,175,287
<b>INTEREST ON LONG-TERM DEBT</b>	6,964,658	6,668,594
<b>OPERATING MARGINS</b>	6,173,422	4,506,693
<b>NONOPERATING MARGINS</b>		
Interest income	798,746	1,061,091
Capital credits	255,259	314,351
Other nonoperating income	128,043	648,778
Total nonoperating margins	1,182,048	2,024,220
<b>EXTRAORDINARY INCOME</b>	-	262
<b>NET MARGINS</b>	7,355,470	6,531,175
<b>NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>	59,272	694,531
<b>NET MARGINS – COOPERATIVE</b>	7,414,742	7,225,706
<b>COMPREHENSIVE INCOME</b>		
Postretirement benefit obligation gain	246,805	124,384
<b>COMPREHENSIVE INCOME – COOPERATIVE</b>	\$ 7,661,547	\$ 7,350,090

## Kaua'i Island Utility Cooperative Consolidated Statements of Equities

	Years Ended December 31,	
	2020	2019
<b>CONTROLLING EQUITY INTEREST</b>		
Memberships		
Balance at January 1	\$ 550	\$ 533
Additions	15	17
Balance at December 31	565	550
Patronage capital		
Balance at January 1	120,656,689	116,290,932
Transfer of net margins	7,414,742	7,225,706
Retirement of capital credits, net	(1,511,574)	(2,859,949)
Balance at December 31	126,559,857	120,656,689
Other equity		
Balance at January 1	887,665	766,937
Additions	96,409	120,728
Balance at December 31	984,074	887,665
Accumulated other comprehensive loss		
Balance at January 1	(1,274,950)	(1,399,334)
Amortization of gains	67,209	71,205
Actuarial gain	179,596	53,179
Balance at December 31	(1,028,145)	(1,274,950)
Total controlling equity interest	126,516,351	120,269,954
<b>NON-CONTROLLING EQUITY INTEREST</b>		
Capital account – A&B KRS II		
Balance at January 1	18,229,782	19,304,898
Distributions	(343,000)	(380,585)
Non-controlling interest in current earnings	(59,272)	(694,531)
Total non-controlling equity interest	17,827,510	18,229,782
Total equities	\$ 144,343,861	\$ 138,499,736

# Kaua'i Island Utility Cooperative

## Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net margins	\$ 7,414,742	\$ 7,225,706
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	18,603,593	18,382,189
Accretion of asset retirement obligation	101,260	96,565
Interest earned on cushion of credit	(750,147)	(773,599)
Capital credit allocations	(255,259)	(314,351)
Net margins attributable to non-controlling interest	(59,272)	(694,531)
Changes in assets and liabilities		
Accounts receivable and unbilled revenue	687,629	506,056
Energy rate adjustment clause	(248,323)	(517,390)
Inventories and other current assets	(1,138,726)	(514,139)
Deferred debits	(10,006,025)	(3,794,226)
Postretirement benefit obligation/asset	(108,352)	13,900
Payables and accrued expenses	(5,968,873)	355,828
Deferred credits	(443,669)	(663,571)
Net cash from operating activities	<u>7,828,578</u>	<u>19,308,437</u>
<b>INVESTING ACTIVITIES</b>		
Additions to utility plant, net	(24,788,756)	(14,727,497)
Rural economic development loans, net	196,124	298,855
Other investments	128,710	5,144,820
Net cash used for investing activities	<u>(24,463,922)</u>	<u>(9,283,822)</u>
<b>FINANCING ACTIVITIES</b>		
Borrowings from long-term debt	33,373,250	4,776,000
Principal payments on long-term debt	(11,783,628)	(15,739,273)
Distributions to non-controlling equity interest	(343,000)	(380,585)
Memberships	15	17
Other equities	96,409	120,728
Retirement of patronage capital	(1,511,574)	(2,859,949)
Net cash from (used for) financing activities	<u>19,831,472</u>	<u>(14,083,062)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,196,128	(4,058,447)
CASH AND CASH EQUIVALENTS, beginning of year	<u>16,386,567</u>	<u>20,445,014</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 19,582,695</u>	<u>\$ 16,386,567</u>

## Kaua'i Island Utility Cooperative Consolidated Statements of Cash Flows

---

	Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 6,944,069</u>	<u>\$ 6,668,594</u>
Income taxes	<u>\$ 13,129</u>	<u>\$ 12,826</u>
NONCASH INVESTING ACTIVITIES		
Liabilities incurred for additions to utility plant	<u>\$ 2,652,359</u>	<u>\$ 2,867,113</u>

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### 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 38,000 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. As of December 31, 2020, the Flip Date had occurred.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### **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.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

**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 34.13% and 34.66% of the total assets at December 31, 2020 and 2019, 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 2.8% 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, 2020 and 2019 was \$18,603,593 and \$18,382,189, respectively, of which \$18,087,417 and \$17,913,929 was charged to depreciation and amortization expense and \$516,176 and \$468,860 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.

## Kaua'i Island Utility Cooperative Notes to Consolidated Financial Statements

---

### **Note 2 – Summary of Significant Accounting Policies (continued)**

**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.

**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 46 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.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

**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, 2020 and 2019, 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 \$40.6 million as of December 31, 2020. 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 \$7.4 million as of December 31, 2020. 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.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### **Note 2 – Summary of Significant Accounting Policies (continued)**

**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.

**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 earn interest at the rate of 5.0% per annum. Beginning October 1, 2020, the interest rate was reduced to 4.0% per annum. 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 \$14.6 million and \$16.0 million at December 31, 2020 and 2019, 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.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

**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 and depreciation of electric plant. 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.

## Kaua'i Island Utility Cooperative

### Notes to Consolidated Financial Statements

---

#### Note 3 – Electric Plant in Service

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

	<u>2020</u>	<u>2019</u>
Production plant	\$ 225,071,482	\$ 223,446,639
Transmission plant	82,828,233	82,579,574
Distribution plant	212,737,254	212,027,016
General plant	46,727,121	44,170,317
Asset retirement costs	<u>2,237,197</u>	<u>2,237,197</u>
 Total electric plant in service	 <u><u>\$ 569,601,287</u></u>	 <u><u>\$ 564,460,743</u></u>

#### Note 4 – Other Property and Investments

Other investments consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
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	842,341	726,590
Membership	1,000	1,000
Other	<u>141,504</u>	<u>130,706</u>
	<u>1,811,645</u>	<u>1,685,096</u>
 Rural economic development loans		
National Tropical Botanical Gardens 2	262,500	307,500
YWCA	75,000	108,750
Kipuni Way	-	42,048
Haole Girl	-	40,792
JC Linen	-	13,066
Tiki Iniki	-	11,632
Kauai Brewers LLC	<u>-</u>	<u>9,836</u>
	<u>337,500</u>	<u>533,624</u>
 Total other investments	 <u><u>\$ 2,149,145</u></u>	 <u><u>\$ 2,218,720</u></u>

## Kaua'i Island Utility Cooperative

### Notes to Consolidated Financial Statements

---

#### Note 5 – Inventories

Inventories consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Materials and supplies	\$ 15,323,063	\$ 14,196,759
Fuel	<u>1,011,290</u>	<u>978,273</u>
Total inventories	<u>\$ 16,334,353</u>	<u>\$ 15,175,032</u>

#### Note 6 – Deferred Debits

Deferred debits consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Regulatory asset – Iniki damage	\$ 511,392	\$ 803,652
Regulatory asset – demand-side management (DSM) and integrated resource plan (IRP)	(15,534)	(105,883)
Regulatory asset - suspension of disconnections	659,041	-
Regulatory asset - COVID-19 (LGM)	8,797,811	-
Regulatory asset – pension costs	6,909,350	5,938,856
DHHL Lease Road Fund	793,333	833,333
HCDC Joint Development fee	119,000	125,000
Preliminary survey and investigation	9,333,899	9,825,754
Other deferred debits	<u>666,258</u>	<u>347,813</u>
Total deferred debits	<u>\$ 27,774,550</u>	<u>\$ 17,768,525</u>

**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 \$292,260 during 2019 and 2020 and is expected to be \$292,260 for next year and \$219,132 in 2022.

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.

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.

## Kaua'i Island Utility Cooperative

### Notes to Consolidated Financial Statements

---

#### Note 6 – Deferred Debits (continued)

Preliminary survey and investigation includes approximately \$5.4 million in costs as of December 31, 2020, and \$6.3 million in costs as of December 31, 2019, related to a hydro facility that is currently in the site-control study and engineering 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 costs incurred. Construction of the hydro facility is expected to begin in 2022. 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:

	<u>2020</u>	<u>2019</u>
Assigned to date	\$ 153,293,321	\$ 146,067,615
Assignable	<u>7,414,742</u>	<u>7,225,706</u>
Total	160,708,063	153,293,321
Retired to date	<u>(34,148,206)</u>	<u>(32,636,632)</u>
Balance	<u>\$ 126,559,857</u>	<u>\$ 120,656,689</u>

## Kaua'i Island Utility Cooperative

### Notes to Consolidated Financial Statements

---

#### Note 8 – Long-Term Debt

The Cooperative has long-term debt due to FFB, National Rural Utilities Cooperative Finance Corporation (CFC) 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:

	<u>2020</u>	<u>2019</u>
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	\$ 7,122,640	\$ 9,337,249
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	67,472,678	69,712,060
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	35,853,681	32,526,476
Fixed note payable due to CFC in quarterly installments of principal and interest at a rate of 3.69%, maturing September 30, 2023	1,453,185	1,943,952
Fixed note payable due to CFC in monthly installments of principal and interest at a rate of 2.55%, maturing March 31, 2035	88,823,559	96,206,719
Fixed note payable due to CFC in monthly installments of principal and interest at a rate of 2.760%, maturing December 31, 2049	26,063,916	-
Note payable to a financial institution, maturing April 2022, payable in monthly installments of principal and interest, including interest at 1%	2,881,250	-
RUS/FFB advance payments (cushion of credit)	(14,597,272)	(15,958,495)
Fixed note payable due to NCSC in quarterly installments of principal and interest at a rate of 4.650%, maturing June 30, 2039	<u>13,951,724</u>	<u>14,417,925</u>
Total long-term debt	229,025,361	208,185,886
Less current maturities	<u>(14,064,298)</u>	<u>(16,638,186)</u>
Long-term debt, less current maturities	<u>\$ 214,961,063</u>	<u>\$ 191,547,700</u>

## Kaua'i Island Utility Cooperative Notes to Consolidated Financial Statements

---

### Note 8 – Long-Term Debt (continued)

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:

2021	\$ 14,064,298
2022	13,471,657
2023	12,753,743
2024	10,161,158
2025	10,426,417
Thereafter	<u>182,745,360</u>
	<u>\$ 243,622,633</u>

On April 16, 2020, the Company received a loan through the Paycheck Protection Program (PPP) in the amount of \$2,881,250, bearing interest at an annual rate of 1.00%. Under the terms of the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act), loan recipients may apply for and be granted forgiveness for all or a portion of the loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of the proceeds for payroll costs, rent, or utility costs and the maintenance of employee and compensation levels. While the Company believes that it has acted in compliance with the program and plans to seek forgiveness of the PPP loan, no assurance can be provided that the Company will obtain forgiveness of the PPP loan in whole, or in part. Under the terms of the PPP loan, monthly payments in the amount of \$162,145, were originally due to begin in October 2020; however, the SBA has allowed for the Company to defer repayment for 10 months following the end of the covered period. As of December 31, 2020, the Company has classified \$1,928,042 in payments as current in accordance with the original terms of the loan agreement.

### 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 1-year unsecured \$20,000,000 line-of-credit for construction financing with CFC at variable interest rates ranging from 2.45% to 2.70% at December 31, 2020. 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, 2020 and 2019.

The Cooperative also has a 1-year unsecured \$15,000,000 line-of-credit for working capital with CoBank at variable interest rate of 4.06% at December 31, 2020. The total balance outstanding was \$0 at December 31, 2020 and 2019.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### Note 10 – Deferred Credits

Deferred credits consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Rural economic development grant	\$ 1,595,319	\$ 1,594,429
Hydro development capital	100,000	100,000
Right of entry deposit	6,305	16,110
Customer advances for construction	3,914,124	4,561,627
Regulatory liability – Iniki	511,392	803,652
Regulatory liability – scheduled plant maintenance	<u>4,745,762</u>	<u>4,240,753</u>
Total deferred credits	<u>\$ 10,872,902</u>	<u>\$ 11,316,571</u>

### 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.

## Kaua'i Island Utility Cooperative Notes to Consolidated Financial Statements

---

### Note 11 – Asset Retirement Obligation (continued)

The following table provides a reconciliation of the beginning and ending ARO liability for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Balances at January 1	\$ 2,638,910	\$ 2,542,345
Accretion of ARO liability	<u>101,260</u>	<u>96,565</u>
Balances at December 31	<u>\$ 2,740,170</u>	<u>\$ 2,638,910</u>

### 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.

**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, 2020 and 2019, were \$20,881,084 and \$33,576,089, respectively.

**Power supply** – 41% of the Cooperative's power 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.

## **Kaua'i Island Utility Cooperative**

### **Notes to Consolidated Financial Statements**

---

#### **Note 12 – Litigation, Commitments, and Contingencies (continued)**

In 2011, the Cooperative signed an agreement with Green Energy Team, LLC, to purchase power from its 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 to Green Energy Team LLC were \$12,260,658 and \$13,136,625 during the years ended December 31, 2020 and 2019, 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 with SolarCity Corporation, to purchase power from its 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 with AES Lawai Solar, LLC to purchase power from its 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 Green Energy Team, LLC, 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 \$24,305,775 and \$22,096,475 during the years ended December 31, 2020 and 2019, respectively.

## Kaua'i Island Utility Cooperative Notes to Consolidated Financial Statements

---

### **Note 12 – Litigation, Commitments, and Contingencies (continued)**

In 2014, the Cooperative signed an agreement with Gay & Robinson Inc., to continue to purchase power from its 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 with AES Kekaha Solar, LLC, to purchase power from its 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 with AES West Kauai Energy Project, LLC, 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) 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 Pu'u 'Ōpae, Pu'u Lua, and Mānā Reservoirs and the related ditch system infrastructure. In addition, historic diversion structures in Koke'e 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 Kaua'i's electricity needs and will move Kaua'i beyond 80% renewable generation. Environmental studies for WKEP have been ongoing. The facility is anticipated to be constructed in 2022 and 2023. 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, 2020, 61% of the positions and 62% of the employees were covered by the union contract. The agreement expires in December 2023.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### Note 12 – Litigation, Commitments, and Contingencies (continued)

**Operating lease** – 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.

KRS One leases the land upon which their solar facility is located 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 2039 and contains an option to extend the term an additional 5 years.

As of December 31, 2020, the future minimum rental commitments under these leases are as follows:

2021	\$ 1,340,868
2022	1,342,997
2023	1,345,191
2024	1,347,450
2025	1,408,669
Thereafter	<u>17,223,644</u>
	<u>\$ 24,008,819</u>

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, 2020 and 2019, was \$1,591,877 and \$1,514,300, 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.

## Kaua'i Island Utility Cooperative Notes to Consolidated Financial Statements

---

### Note 13 – Pension Benefits (continued)

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 2020 and in 2019 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 \$3,611,094 in 2020 and \$3,976,889 in 2019. There have been no significant changes that affect the comparability of 2020 and 2019 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% funded at January 1, 2020 and 2019, 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 \$18,500. 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 2020 and 2019 totaled \$583,889 and \$597,924, 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, 2020 and 2019, were \$290,038 and \$213,805, respectively. The measurement date for the current valuation is December 31, 2020.

# Kaua'i Island Utility Cooperative

## Notes to Consolidated Financial Statements

---

### Note 14 – Post-Retirement Benefits (continued)

Weighted-average assumptions used to determine the net periodic benefit cost for the year ended December 31, 2020:

- Discount rate: 2.50% and 3.15% as of December 31, 2020 and 2019, respectively
- Expected long-term return on plan assets: 3.58% (based on the ten-year performance of the funds, weighted by market value as of December 31, 2020)
- Health care cost trend rate assumed for next year: 6.65% for pre-age 65 and 4.50% medical and 6.00% 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 4.50% medical and 5.00% drug for post-age 65

	<u>2020</u>	<u>2019</u>
Net post-retirement benefit cost		
Interest cost	\$ 122,862	\$ 159,454
Expected return on plan assets	(158,257)	(135,770)
Recognized net actuarial expense	<u>67,209</u>	<u>71,205</u>
Net post-retirement benefit cost	<u>\$ 31,814</u>	<u>\$ 94,889</u>
Accumulated post-retirement benefit obligation (APBO)		
APBO balance at the beginning of year	\$ (4,254,343)	\$ (4,209,714)
Interest costs	(122,862)	(159,454)
Actuarial (loss) gain	66,831	(98,980)
Benefits paid	<u>290,038</u>	<u>213,805</u>
APBO balance at the end of year	<u>\$ (4,020,336)</u>	<u>\$ (4,254,343)</u>
Reconciliation of funded status		
APBO	\$ (4,020,336)	\$ (4,254,343)
Assets funded	<u>4,033,720</u>	<u>3,912,570</u>
Accrued post-retirement funded status	<u>\$ 13,384</u>	<u>\$ (341,773)</u>
Accumulated comprehensive other loss		
Unrecognized prior loss	\$ 1,274,950	\$ 1,399,334
Amortization of gains and losses	(67,209)	(71,205)
Actuarial gain	<u>(179,596)</u>	<u>(53,179)</u>
Accumulated other comprehensive loss	<u>\$ 1,028,145</u>	<u>\$ 1,274,950</u>

## Kaua'i Island Utility Cooperative Notes to Consolidated Financial Statements

---

### Note 14 – Post-Retirement Benefits (continued)

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

2021	\$ 335,056
2022	311,129
2023	286,663
2024	283,219
2025	273,278
2026-2030	<u>1,267,638</u>
	<u>\$ 2,756,983</u>

The Plan assets are held in the Trust and are invested in the Central Pacific Bank's Trust Division at December 31, 2020.

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, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Cash and other accrued income	\$ 1,927	\$ 2,286
Mutual funds	583,590	229,604
Bonds	<u>3,448,203</u>	<u>3,680,680</u>
	<u>\$ 4,033,720</u>	<u>\$ 3,912,570</u>

## **Kaua'i Island Utility Cooperative**

### **Notes to Consolidated Financial Statements**

---

#### **Note 15 – Subsequent Events**

On February 22, 2021, KIUC received a loan advance on the \$49,519,000 Construction Work Plan loan in the amount of \$18,119,000. The interest rate for this advance is 2.90% fixed through the maturity date of February 20, 2051.

Since January of 2020, the coronavirus (COVID-19) outbreak, characterized as a pandemic by the World Health Organizations on March 11, 2020, has caused significant disruptions in the international and U.S. economies and markets. The Company's top priority is the health and safety of their employees, and they are following published guidelines by the Center for Disease Control (CDC) and other governmental health organization in implementing procedures to protect their employees. The pandemic is an ever evolving and challenging situation and its impact on the Company in the future is uncertain.

The Cooperative has evaluated subsequent events through March 31, 2021, the date the consolidated financial statements were available to be issued.

## **Supplementary Information**

---

**Kaua'i Island Utility Cooperative**  
**Consolidating Balance Sheets – December 31, 2020**

	<u>KIUC</u>	<u>KRS One</u>	<u>KRS Two Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
<b>ASSETS</b>					
Utility plant					
In service	\$ 490,820,362	\$ 39,696,039	\$ 39,084,886	\$ -	\$ 569,601,287
Plant acquisition cost	54,852,453		-	-	54,852,453
Less accumulated depreciation	<u>(316,110,457)</u>	<u>(9,650,155)</u>	<u>(9,536,571)</u>	-	<u>(335,297,183)</u>
Total utility plant	229,562,358	30,045,884	29,548,315	-	289,156,557
Construction work in progress	<u>30,084,135</u>	<u>2,567</u>	<u>2,567</u>	-	<u>30,089,269</u>
Net utility plant	<u>259,646,493</u>	<u>30,048,451</u>	<u>29,550,882</u>	-	<u>319,245,826</u>
Other property and investments					
Investments in subsidiary companies	28,165,118	-	-	(28,165,118)	-
Investments in associated organizations	1,798,546	7,419	5,680	-	1,811,645
Rural economic development loans	<u>337,500</u>	-	-	-	<u>337,500</u>
Total other property and investments	<u>30,301,164</u>	<u>7,419</u>	<u>5,680</u>	<u>(28,165,118)</u>	<u>2,149,145</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	16,165,289	264,494	1,538,776	-	17,968,559
Restricted cash and cash equivalents	1,614,136	-	-	-	1,614,136
Other investments	-				-
Accounts receivable	10,441,679	213,837	225,799	-	10,881,315
Accrued unbilled revenue	7,349,891	-	-	-	7,349,891
Energy rate adjustment clause	8,833				8,833
Inventories	16,334,353	-	-	-	16,334,353
Other current assets	<u>2,001,731</u>	<u>11,246</u>	<u>-</u>	<u>-</u>	<u>2,012,977</u>
Total current assets	<u>53,915,912</u>	<u>489,577</u>	<u>1,764,575</u>	<u>-</u>	<u>56,170,064</u>
Post-retirement benefit asset	<u>13,384</u>	-	-	-	<u>13,384</u>
Deferred debits	<u>26,862,217</u>	<u>912,333</u>	<u>-</u>	<u>-</u>	<u>27,774,550</u>
	<u>\$ 370,739,170</u>	<u>\$ 31,457,780</u>	<u>\$ 31,321,137</u>	<u>\$ (28,165,118)</u>	<u>\$ 405,352,969</u>

**Kaua'i Island Utility Cooperative**  
**Consolidating Balance Sheets – December 31, 2020**

	<u>KIUC</u>	<u>KRS One</u>	<u>KRS Two Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>EQUITIES AND LIABILITIES</b>					
<b>EQUITIES</b>					
Controlling equity interest	\$ 126,516,351	\$ (6,677,947)	\$ (1,439,212)	\$ 8,117,159	\$ 126,516,351
Non-controlling equity interest	-	-	17,827,510	-	17,827,510
Total equities	<u>126,516,351</u>	<u>(6,677,947)</u>	<u>16,388,298</u>	<u>8,117,159</u>	<u>144,343,861</u>
Long-term debt, less current maturities	<u>201,497,600</u>	<u>35,952,798</u>	<u>13,719,959</u>	<u>(36,209,294)</u>	<u>214,961,063</u>
Asset retirement obligations	<u>-</u>	<u>2,060,804</u>	<u>679,366</u>	<u>-</u>	<u>2,740,170</u>
<b>CURRENT LIABILITIES</b>					
Current maturities of long-term debt	13,576,037	-	488,261	-	14,064,298
Accounts payable	7,444,198	49,142	45,253	-	7,538,593
Consumer deposits	1,283,952	-	-	-	1,283,952
Accrued employee compensation	2,680,504	-	-	-	2,680,504
Accrued taxes	6,221,731	-	-	-	6,221,731
Other current and accrued liabilities	<u>645,895</u>	<u>72,983</u>	<u>-</u>	<u>(72,983)</u>	<u>645,895</u>
Total current liabilities	<u>31,852,317</u>	<u>122,125</u>	<u>533,514</u>	<u>(72,983)</u>	<u>32,434,973</u>
Deferred credits	<u>10,872,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,872,902</u>
	<u>\$ 370,739,170</u>	<u>\$ 31,457,780</u>	<u>\$ 31,321,137</u>	<u>\$ (28,165,118)</u>	<u>\$ 405,352,969</u>

**Kaua'i Island Utility Cooperative**  
**Consolidating Balance Sheets – December 31, 2019**

	<u>KIUC</u>	<u>KRS One</u>	<u>KRS Two Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
<b>ASSETS</b>					
Utility plant					
In service	\$ 485,678,619	\$ 39,697,238	\$ 39,084,886	\$ -	\$ 564,460,743
Plant acquisition cost	54,852,453	-	-	-	54,852,453
Less accumulated depreciation	<u>(304,563,480)</u>	<u>(7,867,540)</u>	<u>(7,987,944)</u>	<u>-</u>	<u>(320,418,964)</u>
Total utility plant	235,967,592	31,829,698	31,096,942	-	298,894,232
Construction work in progress	<u>11,498,707</u>	<u>15,365</u>	<u>-</u>	<u>-</u>	<u>11,514,072</u>
Net utility plant	<u>247,466,299</u>	<u>31,845,063</u>	<u>31,096,942</u>	<u>-</u>	<u>310,408,304</u>
Other property and investments					
Investments in subsidiary companies	29,988,504	-	-	(29,988,504)	-
Investments in associated organizations	1,675,641	5,073	4,382	-	1,685,096
Rural economic development loans	<u>533,624</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533,624</u>
Total other property and investments	<u>32,197,769</u>	<u>5,073</u>	<u>4,382</u>	<u>(29,988,504)</u>	<u>2,218,720</u>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	13,764,055	342,085	859,556	-	14,965,696
Restricted cash and cash equivalents	1,420,871	-	-	-	1,420,871
Other investments	-	-	-	-	-
Accounts receivable	10,255,000	161,405	315,453	-	10,731,858
Accrued unbilled revenue	8,186,977	-	-	-	8,186,977
Inventories	15,175,032	-	-	-	15,175,032
Other current assets	<u>1,765,834</u>	<u>175,515</u>	<u>92,223</u>	<u>-</u>	<u>2,033,572</u>
Total current assets	<u>50,567,769</u>	<u>679,005</u>	<u>1,267,232</u>	<u>-</u>	<u>52,514,006</u>
Deferred debits	<u>16,810,192</u>	<u>958,333</u>	<u>-</u>	<u>-</u>	<u>17,768,525</u>
	<u>\$ 347,042,029</u>	<u>\$ 33,487,474</u>	<u>\$ 32,368,556</u>	<u>\$ (29,988,504)</u>	<u>\$ 382,909,555</u>

**Kaua'i Island Utility Cooperative**  
**Consolidating Balance Sheets – December 31, 2019**

	<u>KIUC</u>	<u>KRS One</u>	<u>KRS Two Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>EQUITIES AND LIABILITIES</b>					
<b>EQUITIES</b>					
Controlling equity interest	\$ 120,269,954	\$ (5,591,870)	\$ (1,392,483)	\$ 6,984,353	\$ 120,269,954
Non-controlling equity interest	-	-	18,229,782	-	18,229,782
Total equities	<u>120,269,954</u>	<u>(5,591,870)</u>	<u>16,837,299</u>	<u>6,984,353</u>	<u>138,499,736</u>
Long-term debt, less current maturities	<u>177,595,976</u>	<u>36,560,853</u>	<u>14,205,034</u>	<u>(36,814,163)</u>	<u>191,547,700</u>
Post-retirement benefit obligations	<u>341,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>341,773</u>
Asset retirement obligations	<u>-</u>	<u>2,006,705</u>	<u>632,205</u>	<u>-</u>	<u>2,638,910</u>
<b>CURRENT LIABILITIES</b>					
Current maturities of long-term debt	16,171,985	-	466,201	-	16,638,186
Accounts payable	9,402,788	353,092	223,564	-	9,979,444
Energy rate adjustment clause	239,490	-	-	-	239,490
Consumer deposits	1,413,870	-	-	-	1,413,870
Accrued employee compensation	2,297,599	-	-	-	2,297,599
Accrued taxes	7,188,695	-	4,253	-	7,192,948
Other current and accrued liabilities	<u>803,328</u>	<u>158,694</u>	<u>-</u>	<u>(158,694)</u>	<u>803,328</u>
Total current liabilities	<u>37,517,755</u>	<u>511,786</u>	<u>694,018</u>	<u>(158,694)</u>	<u>38,564,865</u>
Deferred credits	<u>11,316,571</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,316,571</u>
	<u>\$ 347,042,029</u>	<u>\$ 33,487,474</u>	<u>\$ 32,368,556</u>	<u>\$ (29,988,504)</u>	<u>\$ 382,909,555</u>

# Kaua'i Island Utility Cooperative

## Consolidating Statements of Operations – December 31, 2020

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
<b>OPERATING REVENUES</b>					
Residential	\$ 59,717,210	\$ -	\$ -	\$ -	\$ 59,717,210
Irrigation	183,919	-	-	-	183,919
Commercial and industrial	75,391,161	-	-	-	75,391,161
Public street and highway lighting	665,798	-	-	-	665,798
Sale for resale	-	2,659,744	2,573,024	(5,232,768)	-
Other operating revenues	9,188,729	-	-	-	9,188,729
<b>Total operating revenues</b>	<b>145,146,817</b>	<b>2,659,744</b>	<b>2,573,024</b>	<b>(5,232,768)</b>	<b>145,146,817</b>
<b>OPERATING EXPENSES</b>					
Cost of power	75,685,307	735,857	376,444	(5,232,768)	71,564,840
Transmission – operation	320,654	25,684	-	-	346,338
Transmission – maintenance	727,087	396	-	-	727,483
Distribution – operation	1,466,525	185,176	-	-	1,651,701
Distribution – maintenance	4,327,442	16,836	-	-	4,344,278
Customer accounts	2,225,091	-	-	-	2,225,091
Customer service and information	268,046	-	-	-	268,046
Administrative and general	20,383,730	24,156	33,112	-	20,440,998
Depreciation and amortization	14,739,457	1,799,333	1,548,627	-	18,087,417
Taxes	12,225,121	13,299	12,865	-	12,251,285
Accretion expense	-	54,099	47,161	-	101,260
Other interest expense	-	893,817	-	(893,817)	-
<b>Total operating expenses</b>	<b>132,368,460</b>	<b>3,748,653</b>	<b>2,018,209</b>	<b>(6,126,585)</b>	<b>132,008,737</b>
<b>OPERATING MARGIN (LOSS) BEFORE INTEREST</b>	<b>12,778,357</b>	<b>(1,088,909)</b>	<b>554,815</b>	<b>893,817</b>	<b>13,138,080</b>
<b>INTEREST ON LONG-TERM DEBT</b>	<b>6,302,276</b>	<b>-</b>	<b>662,382</b>	<b>-</b>	<b>6,964,658</b>
<b>OPERATING MARGINS (LOSSES)</b>	<b>6,476,081</b>	<b>(1,088,909)</b>	<b>(107,567)</b>	<b>893,817</b>	<b>6,173,422</b>
<b>NONOPERATING MARGINS</b>					
Interest income	1,692,563	-	-	(893,817)	798,746
Capital credits	250,861	2,832	1,566	-	255,259
Loss from subsidiaries	(1,132,806)	-	-	1,132,806	-
Other nonoperating loss	128,043	-	-	-	128,043
<b>Total nonoperating margins</b>	<b>938,661</b>	<b>2,832</b>	<b>1,566</b>	<b>238,989</b>	<b>1,182,048</b>
<b>NET MARGINS (LOSSES)</b>	<b>7,414,742</b>	<b>(1,086,077)</b>	<b>(106,001)</b>	<b>1,132,806</b>	<b>7,355,470</b>
<b>NET MARGINS ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>	<b>-</b>	<b>-</b>	<b>59,272</b>	<b>-</b>	<b>59,272</b>
<b>NET MARGINS (LOSSES) – COOPERATIVE</b>	<b>7,414,742</b>	<b>(1,086,077)</b>	<b>(46,729)</b>	<b>1,132,806</b>	<b>7,414,742</b>
<b>COMPREHENSIVE INCOME</b>					
Postretirement benefit obligation gain	246,805	-	-	-	246,805
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ 7,661,547</b>	<b>\$ (1,086,077)</b>	<b>\$ (46,729)</b>	<b>\$ 1,132,806</b>	<b>\$ 7,661,547</b>

## Kaua'i Island Utility Cooperative Consolidating Statements of Operations – December 31, 2019

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
<b>OPERATING REVENUES</b>					
Residential	\$ 63,200,462	\$ -	\$ -	\$ -	\$ 63,200,462
Irrigation	95,379	-	-	-	95,379
Commercial and industrial	90,488,809	-	-	-	90,488,809
Public street and highway lighting	681,986	-	-	-	681,986
Sale for resale	-	2,332,864	2,187,963	(4,520,827)	-
Other operating revenues	450,840	-	-	-	450,840
	<u>154,917,476</u>	<u>2,332,864</u>	<u>2,187,963</u>	<u>(4,520,827)</u>	<u>154,917,476</u>
Total operating revenues					
<b>OPERATING EXPENSES</b>					
Cost of power	88,187,379	804,114	577,550	(4,520,827)	85,048,216
Transmission – operation	449,447	17,658	-	-	467,105
Transmission – maintenance	662,232	511	-	-	662,743
Distribution – operation	1,156,519	255,675	-	-	1,412,194
Distribution – maintenance	4,141,761	31,293	-	-	4,173,054
Customer accounts	2,006,102	-	-	-	2,006,102
Customer service and information	288,952	-	-	-	288,952
Administrative and general	18,487,657	56,897	33,166	-	18,577,720
Depreciation and amortization	14,578,745	1,785,977	1,548,607	-	17,913,329
Taxes	13,073,605	11,664	10,940	-	13,096,209
Accretion expense	-	52,678	43,887	-	96,565
Other interest expense	-	970,521	-	(970,521)	-
	<u>143,032,399</u>	<u>3,986,988</u>	<u>2,214,150</u>	<u>(5,491,348)</u>	<u>143,742,189</u>
Total operating expenses					
OPERATING MARGIN (LOSS) BEFORE INTEREST	11,885,077	(1,654,124)	(26,187)	970,521	11,175,287
INTEREST ON LONG-TERM DEBT	5,985,149	-	683,445	-	6,668,594
OPERATING MARGINS (LOSSES)	<u>5,899,928</u>	<u>(1,654,124)</u>	<u>(709,632)</u>	<u>970,521</u>	<u>4,506,693</u>
<b>NONOPERATING MARGINS (LOSSES)</b>					
Interest income	2,031,612	-	-	(970,521)	1,061,091
Capital credits	308,383	2,920	3,048	-	314,351
Loss from subsidiaries	(1,662,995)	-	-	1,662,995	-
Other nonoperating loss	648,778	-	-	-	648,778
	<u>1,325,778</u>	<u>2,920</u>	<u>3,048</u>	<u>692,474</u>	<u>2,024,220</u>
Total nonoperating margins					
EXTRAORDINARY INCOME	-	-	262	-	262
NET MARGINS (LOSSES)	7,225,706	(1,651,204)	(706,322)	1,662,995	6,531,175
NET MARGINS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-	-	694,531	-	694,531
NET MARGINS (LOSSES) – COOPERATIVE	<u>7,225,706</u>	<u>(1,651,204)</u>	<u>(11,791)</u>	<u>1,662,995</u>	<u>7,225,706</u>
<b>COMPREHENSIVE INCOME</b>					
Postretirement benefit obligation gain	124,384	-	-	-	124,384
COMPREHENSIVE INCOME (LOSS)	<u>\$ 7,350,090</u>	<u>\$ (1,651,204)</u>	<u>\$ (11,791)</u>	<u>\$ 1,662,995</u>	<u>\$ 7,350,090</u>

## **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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Kaua'i Island Utility Cooperative (the "Cooperative"), which comprise the balance sheet as of December 31, 2020, and the related statements of operations, equities and cash flows for the year ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2021.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 Cooperative's internal control or on compliance. This report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the Cooperative's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Miss Adams UP*

Portland, Oregon  
March 31, 2021

