



Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Kaua'i Island Utility Cooperative and Subsidiaries

December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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.

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 27, 2024 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon

March 27, 2024

Financial Statements

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
ASSETS		
Utility plant		
Electric plant in service	\$ 608,917,452	\$ 605,562,623
Right of use asset - operating lease	16,382,874	17,178,828
Electric plant acquisition cost	54,852,453	54,852,453
Accumulated depreciation and amortization	<u>(365,047,499)</u>	<u>(361,294,370)</u>
Net electric plant in service	<u>315,105,280</u>	<u>316,299,534</u>
Construction work in progress	<u>11,164,049</u>	<u>13,245,623</u>
Net utility plant	<u>326,269,329</u>	<u>329,545,157</u>
Other property and investments		
Investments in associated organizations	2,128,087	2,025,070
Rural economic development loans	<u>972,071</u>	<u>967,434</u>
Total other investments	<u>3,100,158</u>	<u>2,992,504</u>
CURRENT ASSETS		
Cash and cash equivalents	44,655,371	36,833,446
Restricted cash and cash equivalents	1,298,990	1,284,552
Other investments	-	10,000,000
Accounts and notes receivable, net	14,406,845	13,052,112
Accrued unbilled revenue	8,743,081	9,279,755
Energy rate adjustment clause	-	89,426
Fuel inventory	1,559,984	1,817,736
Materials and supplies	20,722,734	20,667,120
Other current assets	<u>1,329,072</u>	<u>1,391,134</u>
Total current assets	<u>92,716,077</u>	<u>94,415,281</u>
Post-retirement benefit asset	<u>63,548</u>	<u>20,606</u>
Deferred debits	<u>38,225,997</u>	<u>34,343,173</u>
	<u><u>\$ 460,375,109</u></u>	<u><u>\$ 461,316,721</u></u>

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
EQUITIES AND LIABILITIES		
EQUITIES		
Controlling equity interest	\$ 139,000,882	\$ 134,776,827
Non-controlling equity interest	17,666,736	17,724,051
Total equities	156,667,618	152,500,878
LONG-TERM LIABILITIES		
Long-term debt, less current portion	237,174,867	241,998,534
Operating lease obligation	16,004,617	16,640,306
Asset retirement obligations	3,075,035	2,957,920
Total long-term liabilities	256,254,519	261,596,760
CURRENT LIABILITIES		
Current maturities of long-term debt	11,233,584	13,795,833
Accounts payable	8,344,475	8,008,222
Current maturities of operating lease obligation	674,238	674,238
Energy rate adjustment clause	644,475	-
Consumer deposits	1,302,837	1,263,231
Accrued employee compensation	2,518,252	2,663,499
Accrued taxes	8,470,966	8,904,990
Other current and accrued liabilities	1,200,317	999,891
Total current liabilities	34,389,144	36,309,904
Deferred credits	13,063,828	10,909,179
	\$ 460,375,109	\$ 461,316,721

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Residential	\$ 72,799,495	\$ 75,465,976
Commercial and industrial	95,894,420	98,190,497
Public street and highway lighting	667,512	692,840
Irrigation	274,534	718,357
Other operating revenues	461,907	(259,744)
Total operating revenues	170,097,868	174,807,926
OPERATING EXPENSES		
Cost of power	94,853,081	99,522,277
Transmission – operation and maintenance	1,334,213	1,133,673
Distribution – operation and maintenance	6,606,201	6,407,713
Customer service	2,426,903	2,432,952
Administrative and general	22,396,985	21,789,908
Depreciation and amortization	18,737,925	19,014,017
Taxes	14,457,938	14,746,541
Accretion expense	117,115	111,515
Total operating expenses	160,930,361	165,158,596
OPERATING MARGIN BEFORE INTEREST	9,167,507	9,649,330
INTEREST ON LONG-TERM DEBT	7,331,442	7,397,917
OPERATING MARGINS	1,836,065	2,251,413
NONOPERATING MARGINS		
Interest income	2,015,695	637,522
Capital credits	197,835	201,912
Other nonoperating income, net	202,555	74,892
Total nonoperating margins	2,416,085	914,326
NET MARGINS	4,252,150	3,165,739
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	8,514	7,020
NET MARGINS – COOPERATIVE	4,260,664	3,172,759
COMPREHENSIVE INCOME		
Postretirement benefit obligation gain (loss)	(131,385)	211,855
COMPREHENSIVE INCOME – COOPERATIVE	\$ 4,129,279	\$ 3,384,614

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Equities
Years Ended December 31, 2023 and 2022

	2023	2022
CONTROLLING EQUITY INTEREST		
Memberships		
Balance at January 1	\$ 598	\$ 583
Additions	12	15
	610	598
Balance at December 31		
Patronage capital		
Balance at January 1	134,713,705	133,560,252
Transfer of net margins	4,260,664	3,172,759
Retirement of capital credits, net	(246,920)	(2,019,306)
	138,727,449	134,713,705
Balance at December 31		
Other equity		
Balance at January 1	1,139,315	1,048,231
Additions	78,914	91,084
	1,218,229	1,139,315
Balance at December 31		
Accumulated other comprehensive loss		
Balance at January 1	(1,076,791)	(864,936)
Amortization of gains	52,367	31,166
Actuarial gain	79,018	(243,021)
	(945,406)	(1,076,791)
Balance at December 31		
Total controlling equity interest	139,000,882	134,776,827
NON-CONTROLLING EQUITY INTEREST		
Capital account – A&B KRS II		
Balance at January 1	17,724,051	17,775,258
Distributions	(48,801)	(44,187)
Non-controlling interest in current loss	(8,514)	(7,020)
	17,666,736	17,724,051
Total non-controlling equity interest		
Total equities	\$ 156,667,618	\$ 152,500,878

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Net margins	\$ 4,260,664	\$ 3,172,759
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	18,737,925	19,584,279
Accretion of asset retirement obligation	117,115	111,515
Noncash lease expense	(635,689)	135,716
Interest earned on cushion of credit	(118,531)	(57,357)
Capital credit allocations	(197,834)	(201,912)
Net margins attributable to non-controlling interest	(8,514)	(7,020)
Changes in assets and liabilities		
Accounts receivable and unbilled revenue	(818,059)	(1,420,891)
Energy rate adjustment clause	733,901	(715,780)
Inventories and other current assets	264,200	(1,851,928)
Deferred debits	(3,882,824)	(53,368)
Postretirement benefit obligation/asset	88,443	1,170,462
Payables, customer deposits, and accrued expenses	(2,986)	(1,210,139)
Deferred credits	2,154,649	(379,440)
Net cash from operating activities	<u>20,692,460</u>	<u>18,276,896</u>
INVESTING ACTIVITIES		
Additions to utility plant, net	(15,462,097)	(12,977,431)
Rural economic development loans, net	(4,637)	(359,934)
Other investments	10,094,817	(4,883,207)
Net cash used for investing activities	<u>(5,371,917)</u>	<u>(18,220,572)</u>
FINANCING ACTIVITIES		
Borrowings from long-term debt	-	21,056,000
Principal payments on long-term debt	(7,267,385)	(5,830,800)
Distributions to non-controlling equity interest	(48,801)	(44,187)
Memberships	12	15
Other equities	78,914	91,084
Retirement of patronage capital	(246,920)	(2,019,306)
Net cash from financing activities	<u>(7,484,180)</u>	<u>13,252,806</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,836,363	13,309,130
CASH AND CASH EQUIVALENTS, beginning of year	<u>38,117,998</u>	<u>24,808,868</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 45,954,361</u></u>	<u><u>\$ 38,117,998</u></u>

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 7,476,080</u>	<u>\$ 6,541,370</u>
Income taxes	<u>\$ 12,400</u>	<u>\$ 12,400</u>
NONCASH INVESTING ACTIVITIES		
Liabilities incurred for additions to utility plant	<u>\$ -</u>	<u>\$ 325,816</u>

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries

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 39,000 customers. The Cooperative's headquarters facility is located in Lihue, Hawaii.

KIUC Renewable Solutions One LLC (KRS One) is a wholly owned subsidiary 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.

KIUC Renewable Solutions Two LLC (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.

KIUC Renewable Solutions Two Holdings LLC (KRS Two Holdings) is a wholly owned subsidiary and 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 intercompany 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 nonregulated 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 5 and 8). 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. Capital credits are returned to members in accordance with the Cooperative's policies and the 2010 HPUC approved rate case. 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.

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.

On November 1, 2002, the Cooperative acquired substantially all of the assets of Kaua'i Electric (KE), a division of Citizens Communications Company. 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 consisted of medium term notes held with CFC with interest rates ranging from 3.83% to 4.82%, maturing in 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 Cooperative provides an allowance for credit losses to estimate losses from uncollectible accounts. The allowance for credit losses is estimated considering the Cooperative's historical losses, review of specific problem accounts, existing and reasonably supportable expected future economic conditions and the financial stability of its customers. Generally, the Cooperative considers accounts receivable past due after 30 days. The allowance for doubtful accounts was \$83,332 and \$109,503 as of December 31, 2023 and 2022, respectively.

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, diesel, and biodiesel fuel for the generation units and are valued at lower of cost or net realizable value.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 5).

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 8).

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 12).

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, 2023 and 2022, 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 and state tax net operating loss carryforwards of approximately \$37.1 million as of December 31, 2023. As of December 31, 2023, the deferred tax asset of approximately \$10.2 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$6.2 million consisting primarily of fixed assets. As of December 31, 2022, the deferred tax asset of approximately \$10.3 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$6.6 million consisting primarily of fixed assets. A valuation allowance has been recorded to offset the deferred tax asset due to the uncertainty of the ability for the Company to generate future taxable profits to utilize the tax benefit as of December 31, 2023 and 2022.

KRS Two Holdings is a Delaware limited liability company that has elected to be treated as a corporation for federal tax purposes. KRS Two has federal and state tax net operating loss carryforwards of approximately \$3.9 million as of December 31, 2023. As of December 31, 2023, the deferred tax asset of approximately \$1.1 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$0.3 million consisting primarily of K-1 flowthrough. As of December 31, 2022, the deferred tax asset of approximately \$1.4 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$0.7 million consisting primarily of K-1 flowthrough. A valuation allowance has been recorded to offset the deferred tax asset due to the uncertainty of the ability for the Company to generate future taxable profits to utilize the tax benefit as of December 31, 2023 and 2022.

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 – The Cooperative determines whether a contract is or contains a lease at inception. Operating and finance leases will be recognized on the balance sheets as right-of-use (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 utilizes 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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. 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 \$474 and \$6.3 million at December 31, 2023 and 2022, respectively, and is recorded as a reduction of RUS long-term debt on the consolidated balance sheets.

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 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 and plan assets managed by trustee (Note 14) are considered level 2 inputs.

Recently issued and adopted accounting pronouncements – The Cooperative adopted Accounting Standards Update (“ASU”) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including trade receivables and held-to-maturity debt securities. The Cooperative adopted the standard on January 1, 2023 utilizing the modified retrospective transition approach. This standard did not have a material impact on the financial statements.

Reclassification – Certain prior year balances were reclassified to confirm with current year presentation.

Subsequent events – The Cooperative has evaluated subsequent events through March 27, 2024, 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:

	Depreciation Rates	2023	2022
		<u>2023</u>	<u>2022</u>
Production plant	3.01%	\$ 228,742,639	\$ 228,226,310
Transmission plant	1.92%	98,766,835	96,899,955
Distribution plant	3.15%	229,100,775	229,026,733
General plant	3.27%	50,070,006	49,172,428
Asset retirement costs	N/A	<u>2,237,197</u>	<u>2,237,197</u>
Total electric plant in service		<u><u>\$ 608,917,452</u></u>	<u><u>\$ 605,562,623</u></u>

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Other Property and Investments

Other investments consisted of the following at December 31:

	2023	2022
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	1,125,316	1,035,289
Membership	1,000	1,000
Other	174,971	161,981
	2,128,087	2,025,070
Rural economic development loans		
National Tropical Botanical Gardens 2	127,500	172,500
Na Pali Brewing - RLF	430,142	471,601
Island School 2	283,333	323,333
Island School - RLF	131,096	-
	972,071	967,434
Total other investments	\$ 3,100,158	\$ 2,992,504

Note 5 – Deferred Debits

Deferred debits consisted of the following at December 31:

	2023	2022
Regulatory asset – COVID-19 (LGM)	\$ 12,781,573	\$ 12,781,573
Regulatory asset – pension costs	10,564,006	9,543,932
Regulatory asset – 2022 rate case	2,032,267	726,748
Preliminary survey and investigation	11,937,332	10,134,502
DHHL Lease Road Fund	673,333	713,333
HCDC Joint Development fee	101,000	107,000
Other deferred debits	136,486	336,085
Total deferred debits	\$ 38,225,997	\$ 34,343,173

Regulatory assets –

COVID-19 (LGM) – The Cooperative received interim regulatory approval to defer costs associated with suspension of disconnections and lost gross margin (LGM) and amortize them over a 15-year period or an accelerated rate if debt service coverage ratio is above 1.695, beginning in 2024.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Pension costs – The HPUC approved a maximum amount of annual pension plan costs to be included in rates. In 2023, the Cooperative received interim regulatory approval to increase the annual pension costs and continue to record difference between actual costs and interim approved expenses as a regulatory asset.

Note 6 – 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:

	2023	2022
Fixed and variable notes payable due to FFB in quarterly installments of principal and interest with rates ranging from 1.2010% to 3.3120%, maturing through 2052	\$ 117,199,375	\$ 123,405,780
Fixed note payable due to CFC in quarterly installments of principal and interest at a rate of 2.55%, maturing 2035	72,704,840	78,627,175
Fixed note payable due to CFC in monthly installments of principal and interest at a rate of 2.760%, maturing December 31, 2049	24,226,770	24,856,071
Fixed note payable due to CoBank in monthly installments of principal and interest rates ranging from 2.90% to 3.33%, maturing through 2052	21,725,180	22,227,415
RUS/FFB advance payments (cushion of credit) and other	(474)	(6,274,173)
KRS 2 - Fixed note payable due to NCSC in quarterly installments of principal and interest at a rate of 4.650%, maturing 2039	12,552,760	12,952,099
Less current maturities	248,408,451	255,794,367
Long-term debt, less current maturities	(11,233,584)	(13,795,833)
	\$ 237,174,867	\$ 241,998,534

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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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

2024	\$ 11,233,584
2025	11,528,575
2026	11,847,572
2027	12,152,815
2028	12,519,048
Thereafter	<u>189,127,331</u>
	<u>\$ 248,408,925</u>

Note 7 – 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 7.25% at December 31, 2023. 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, 2023 and 2022.

The Cooperative also has a 1-year unsecured \$15,000,000 line-of-credit for working capital with CoBank at variable interest rate of 7.41% at December 31, 2023. The total balance outstanding was \$0 at December 31, 2023 and 2022.

Note 8 – Deferred Credits

Deferred credits consisted of the following at December 31:

	<u>2023</u>	<u>2022</u>
Rural economic development grant	\$ 1,910,995	\$ 1,896,506
Right of entry deposit	6,305	6,305
Customer advances for construction	5,563,330	4,750,983
Regulatory liability – scheduled plant maintenance	<u>5,583,198</u>	<u>4,255,385</u>
Total deferred credits	<u>\$ 13,063,828</u>	<u>\$ 10,909,179</u>

Note 9 – Asset Retirement Obligation

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. 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 and Subsidiaries

Notes to Consolidated Financial Statements

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. 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 2023 and 2022:

	2023	2022
Balances at January 1	\$ 2,957,920	\$ 2,846,406
Accretion of ARO liability	117,115	111,514
Balances at December 31	\$ 3,075,035	\$ 2,957,920

Note 10 – 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 has appealed the arbitration. KIUC does not expect the arbitration award to have a material impact on its financials. No accrual has been made in the financials due to the uncertainty of the outcome as of December 31, 2023.

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, 2023 and 2022, were \$41.4 million and \$44.6 million, respectively.

Power supply – 46% of the Cooperative's power in 2023 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.

Union contract – The Cooperative has an agreement with one union. As of December 31, 2023, 61% of the positions and 60% of the employees were covered by the union contract. The agreement expires in December 2027.

Operating leases – The Cooperative leases their headquarters under a noncancelable 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 noncancelable operating lease which expires in 2040.

KRS Two leases the land upon which their solar facility is located under a noncancelable 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, 2023, the future minimum lease commitments under these leases are as follows:

2024		\$ 1,345,333
2025		1,468,570
2026		1,376,396
2027		1,427,184
2028		1,516,198
Thereafter		<u>18,052,261</u>
Total future minimum lease payment		25,185,942
Less present value discount		<u>(8,507,087)</u>
Total lease liabilities		16,678,855
Less current portion		<u>674,238</u>
Long-term lease liability		<u><u>\$ 16,004,617</u></u>

Cash paid for amounts included in the measurements of lease liabilities		
Operating cash flow from operating leases		\$ 1,345,196
Weighted-average remaining lease term in years for operating leases		19.84
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, 2023 and 2022, was \$1,730,434 and \$1,795,185, respectively.

Note 11 – 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 noncontributory 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.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to 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 2023 and in 2022 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 \$3,660,674 in 2023 and \$3,812,625 in 2022. There have been no significant changes that affect the comparability of 2023 and 2022 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, 2023 and 2022, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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 2023 and 2022 totaled \$594,776 and \$596,103, respectively.

Note 12 – 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 noncontributory 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, 2023 and 2022, were \$254,993 and \$293,815, respectively. The measurement date for the current valuation is December 31, 2023.

Weighted-average assumptions used to determine the net periodic benefit cost for the year ended December 31, 2023:

- Discount rate: 4.85% and 5.00% as of December 31, 2023 and 2022, respectively

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

- Expected long-term return on plan assets: 4.57% (based on the ten-year performance of the funds, weighted by market value as of December 31, 2023)
- Health care cost trend rate assumed for next year: 6.3% 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

	2023	2022
Net post-retirement benefit cost		
Interest cost	\$ 144,472	\$ 97,322
Expected return on plan assets	(106,116)	(110,123)
Recognized net actuarial expense	52,367	31,166
Net post-retirement benefit cost	\$ 90,723	\$ 18,365
Accumulated post-retirement benefit obligation (APBO)		
APBO balance at the beginning of year	\$ (3,185,539)	\$ (3,769,281)
Interest costs	(144,472)	(97,322)
Actuarial gain	(171,727)	387,249
Benefits paid	296,095	293,815
APBO balance at the end of year	\$ (3,205,643)	\$ (3,185,539)
Reconciliation of funded status		
APBO	\$ (3,205,643)	\$ (3,185,539)
Assets funded	3,269,191	3,206,145
Accrued post-retirement funded status	\$ 63,548	\$ 20,606
Accumulated comprehensive other loss		
Unrecognized prior loss	\$ 1,076,791	\$ 864,936
Amortization of gains and losses	(52,367)	(31,166)
Actuarial gain (loss)	(79,018)	243,021
Accumulated other comprehensive loss	\$ 945,406	\$ 1,076,791

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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

2024		\$ 307,646
2025		300,614
2026		295,609
2027		290,157
2028		284,167
2029-2031		<u>1,250,651</u>
		<u><u>\$ 2,728,844</u></u>

The Plan assets are held in the Trust and are invested in the Central Pacific Bank's Trust Division at December 31, 2023.

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, 2023 and 2022, 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>2023</u>	<u>2022</u>
Cash and other accrued income	\$ 113,072	\$ 97,458
Mutual funds	1,857,215	1,862,275
Bonds	<u>1,298,904</u>	<u>1,246,412</u>
	<u><u>\$ 3,269,191</u></u>	<u><u>\$ 3,206,145</u></u>

Note 13 – Rate Action

The Cooperative has submitted an application for increase in rates with the Hawaii Public Utility Commission (HPUC). The Commission filed an interim decision and order on November 27, 2023. The interim rate design was effective on January 11, 2024.

Supplementary Information

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Balance Sheets
December 31, 2023

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
ASSETS					
ASSETS					
Utility plant					
In service	\$ 534,369,562	\$ 35,423,856	\$ 39,124,034	\$ -	\$ 608,917,452
Right-of-use asset - operating lease	12,880,796	2,388,621	1,113,457	-	16,382,874
Plant acquisition cost	54,852,453	-	-	-	54,852,453
Less accumulated depreciation	<u>(340,292,812)</u>	<u>(10,562,731)</u>	<u>(14,191,956)</u>	<u>-</u>	<u>(365,047,499)</u>
Total utility plant	261,809,999	27,249,746	26,045,535	-	315,105,280
Construction work in progress	<u>11,164,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,164,049</u>
Net utility plant	<u>272,974,048</u>	<u>27,249,746</u>	<u>26,045,535</u>	<u>-</u>	<u>326,269,329</u>
Other property and investments					
Investments in subsidiary companies	21,935,989	-	-	(21,935,989)	-
Investments in associated organizations	2,103,849	13,478	10,760	-	2,128,087
Rural economic development loans	<u>972,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>972,071</u>
Total other property and investments	<u>25,011,909</u>	<u>13,478</u>	<u>10,760</u>	<u>(21,935,989)</u>	<u>3,100,158</u>
CURRENT ASSETS					
Cash and cash equivalents	40,005,068	266,041	4,384,262	-	44,655,371
Restricted cash and cash equivalents	1,298,990	-	-	-	1,298,990
Other investments	-	-	-	-	-
Accounts receivable	14,054,062	126,976	225,807	-	14,406,845
Accrued unbilled revenue	8,743,081	-	-	-	8,743,081
Energy rate adjustment clause	-	-	-	-	-
Fuel inventory	1,559,984	-	-	-	1,559,984
Materials and supplies inventory	20,722,734	-	-	-	20,722,734
Other current assets	<u>1,249,089</u>	<u>49,693</u>	<u>30,290</u>	<u>-</u>	<u>1,329,072</u>
Total current assets	<u>87,633,008</u>	<u>442,710</u>	<u>4,640,359</u>	<u>-</u>	<u>92,716,077</u>
Post-retirement benefit asset	<u>63,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,548</u>
Deferred debits	<u>37,451,664</u>	<u>774,333</u>	<u>-</u>	<u>-</u>	<u>38,225,997</u>
	<u>\$ 423,134,177</u>	<u>\$ 28,480,267</u>	<u>\$ 30,696,654</u>	<u>\$ (21,935,989)</u>	<u>\$ 460,375,109</u>

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Balance Sheets
December 31, 2023

	<u>KIUC</u>	<u>KRS One</u>	<u>KRS Two Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
EQUITIES AND LIABILITIES					
EQUITIES					
Controlling equity interest	\$ 139,000,882	\$ (9,652,960)	\$ (1,997,041)	\$ 11,650,001	\$ 139,000,882
Non-controlling equity interest	-	-	17,666,736	-	17,666,736
Total equities	<u>139,000,882</u>	<u>(9,652,960)</u>	<u>15,669,695</u>	<u>11,650,001</u>	<u>156,667,618</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES					
Long-term debt	225,183,010	33,255,728	12,241,858	(33,505,729)	237,174,867
Operating lease obligation	12,384,637	2,482,331	1,137,649	-	16,004,617
	<u>237,567,647</u>	<u>35,738,059</u>	<u>13,379,507</u>	<u>(33,505,729)</u>	<u>253,179,484</u>
Asset retirement obligations	-	2,232,008	843,027	-	3,075,035
CURRENT LIABILITIES					
Current maturities of long-term debt	10,672,683	-	560,901	-	11,233,584
Accounts payable	8,249,951	23,423	71,101	-	8,344,475
Current maturities of operating lease obligation	618,559	30,294	25,385	-	674,238
Energy rate adjustment clause	644,475	-	-	-	644,475
Consumer deposits	1,302,837	-	-	-	1,302,837
Accrued employee compensation	2,518,252	-	-	-	2,518,252
Accrued taxes	8,470,966	-	-	-	8,470,966
Other current and accrued liabilities	1,024,097	109,443	147,038	(80,261)	1,200,317
Total current liabilities	<u>33,501,820</u>	<u>163,160</u>	<u>804,425</u>	<u>(80,261)</u>	<u>34,389,144</u>
Deferred credits	<u>13,063,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,063,828</u>
	<u>\$ 423,134,177</u>	<u>\$ 28,480,267</u>	<u>\$ 30,696,654</u>	<u>\$ (21,935,989)</u>	<u>\$ 460,375,109</u>

Kaua'i Island Utility Cooperative and Subsidiaries
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	-	
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
Fuel inventory	1,817,736	-	-	-	1,817,736
Materials and supplies inventory	20,667,120	-	-	-	20,667,120
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
	<u>\$ 423,743,821</u>	<u>\$ 30,500,992</u>	<u>\$ 31,208,632</u>	<u>\$ (24,136,724)</u>	<u>\$ 461,316,721</u>

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

	<u>KIUC</u>	<u>KRS One</u>	<u>KRS Two Holdings</u>	<u>Eliminations</u>	<u>Consolidated</u>
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	<u>134,776,827</u>	<u>(8,547,224)</u>	<u>15,893,752</u>	<u>10,377,523</u>	<u>152,500,878</u>
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	<u>12,964,646</u>	<u>2,512,625</u>	<u>1,163,035</u>	<u>-</u>	<u>16,640,306</u>
Total long term debt	<u>242,546,640</u>	<u>36,661,677</u>	<u>13,864,093</u>	<u>(34,433,570)</u>	<u>258,638,840</u>
Asset retirement obligations	<u>-</u>	<u>2,173,415</u>	<u>784,505</u>	<u>-</u>	<u>2,957,920</u>
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	<u>969,597</u>	<u>110,971</u>	<u>-</u>	<u>(80,677)</u>	<u>999,891</u>
Total current liabilities	<u>35,511,175</u>	<u>213,124</u>	<u>666,282</u>	<u>(80,677)</u>	<u>36,309,904</u>
Deferred credits	<u>10,909,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,909,179</u>
	<u>\$ 423,743,821</u>	<u>\$ 30,500,992</u>	<u>\$ 31,208,632</u>	<u>\$ (24,136,724)</u>	<u>\$ 461,316,721</u>

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Statements of Operations
Year Ended December 31, 2023

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
OPERATING REVENUES					
Residential	\$ 72,799,495	\$ -	\$ -	\$ -	\$ 72,799,495
Commercial and industrial	95,894,420	-	-	-	95,894,420
Public street and highway lighting	667,512	-	-	-	667,512
Irrigation	274,534	-	-	-	274,534
Sale for resale	-	2,385,152	2,518,080	(4,903,232)	-
Other operating revenues	461,907	-	-	-	461,907
Total operating revenues	170,097,868	2,385,152	2,518,080	(4,903,232)	170,097,868
OPERATING EXPENSES					
Cost of power	98,633,656	680,147	442,510	(4,903,232)	94,853,081
Transmission - operation and maintenance	1,331,558	2,655	-	-	1,334,213
Distribution – operation and maintenance	6,589,432	16,769	-	-	6,606,201
Customer service	2,426,903	-	-	-	2,426,903
Administrative and general	22,344,138	17,920	34,927	-	22,396,985
Depreciation and amortization	15,421,498	1,763,770	1,552,657	-	18,737,925
Taxes	14,433,304	11,983	12,651	-	14,457,938
Accretion expense	-	58,593	58,522	-	117,115
Other interest expense	-	940,350	-	(940,350)	-
Total operating expenses	161,180,489	3,492,187	2,101,267	(5,843,582)	160,930,361
OPERATING MARGIN (LOSS) BEFORE INTEREST	8,917,379	(1,107,035)	416,813	940,350	9,167,507
INTEREST ON LONG-TERM DEBT	6,738,418	-	593,024	-	7,331,442
OPERATING MARGINS (LOSSES)	2,178,961	(1,107,035)	(176,211)	940,350	1,836,065
NONOPERATING MARGINS					
Interest income	2,956,045	-	-	(940,350)	2,015,695
Capital credits	195,581	1,299	955	-	197,835
Loss from subsidiaries	(1,272,478)	-	-	1,272,478	-
Other nonoperating income (expense)	202,555	-	-	-	202,555
Total nonoperating margins	2,081,703	1,299	955	332,128	2,416,085
NET MARGINS (LOSSES)	4,260,664	(1,105,736)	(175,256)	1,272,478	4,252,150
NET MARGINS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	-	-	8,514	-	8,514
NET MARGINS (LOSSES) – COOPERATIVE	4,260,664	(1,105,736)	(166,742)	1,272,478	4,260,664
COMPREHENSIVE INCOME					
Postretirement benefit obligation gain	(131,385)	-	-	-	(131,385)
COMPREHENSIVE INCOME (LOSS)	\$ 4,129,279	\$ (1,105,736)	\$ (166,742)	\$ 1,272,478	\$ 4,129,279

Kaua'i Island Utility Cooperative and Subsidiaries
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
Commercial and industrial	98,190,497	-	-	-	98,190,497
Public street and highway lighting	692,840	-	-	-	692,840
Irrigation	718,357	-	-	-	718,357
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 and maintenance	1,104,726	28,947	-	-	1,133,673
Distribution – operation and maintenance	6,127,439	280,274	-	-	6,407,713
Customer accounts	2,432,952	-	-	-	2,432,952
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 (LOSSES)					
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

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 and Subsidiaries

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, 2023, and the related notes to the financial statements, which collectively comprise Kaua'i Island Utility Cooperative and Subsidiaries financial statements, and have issued our report thereon dated March 27, 2024.

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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Portland, Oregon

March 27, 2024

