



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

**ORCAS POWER & LIGHT COOPERATIVE
AND SUBSIDIARY**

December 31, 2020 and 2019



MOSSADAMS

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Report of Independent Auditors

To the Board of Directors
Orcas Power & Light Cooperative and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Orcas Power & Light Cooperative and Subsidiary (collectively, the Cooperative), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of revenues and margins, changes in patronage capital and other 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 audits. We conducted our audits 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 audit 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 Cooperative'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 Orcas Power & Light Cooperative and Subsidiary as of December 31, 2020 and 2019, and the results of its consolidated 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

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 as of December 31, 2020 and 2019, and consolidating statements of revenues and margins for the years then ended (collectively, supplementary information) are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 May 13, 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 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 Orcas Power & Light Cooperative and Subsidiary internal control over financial reporting and compliance.



Everett, Washington
May 13, 2021

Orcas Power & Light Cooperative and Subsidiary

Consolidated Balance Sheets

ASSETS

	December 31,	
	2020	2019
UTILITY PLANT, at cost		
Electric plant in service	\$ 148,966,540	\$ 144,301,229
Broadband plant in service	21,540,507	19,409,714
Construction work in progress	8,045,508	5,853,931
	178,552,555	169,564,874
Less accumulated depreciation and amortization	63,631,165	57,521,701
Net utility plant	114,921,390	112,043,173
INVESTMENTS AND OTHER ASSETS		
Investments in associated organizations	1,866,511	1,814,993
Goodwill	126,886	157,960
Total investments and other assets	1,993,397	1,972,953
CURRENT ASSETS		
Cash and cash equivalents	6,661,027	4,160,329
Cash and cash equivalents - board designated	6,376,648	538,698
Accounts receivable, net of allowance for doubtful accounts of \$67,090 and \$65,671 in 2020 and 2019	4,579,342	4,121,198
Interest receivable	6,240	24,279
Materials and supplies	5,147,380	4,029,998
Prepaid expenses	667,394	564,247
Total current assets	23,438,031	13,438,749
DEFERRED CHARGES	1,110,562	647,075
Total assets	\$ 141,463,380	\$ 128,101,950

Orcas Power & Light Cooperative and Subsidiary

Consolidated Balance Sheets

EQUITIES, MARGINS, AND LIABILITIES

	December 31,	
	2020	2019
EQUITIES AND MARGINS		
Memberships	\$ 57,595	\$ 56,355
Patronage capital	43,510,712	42,747,665
Undistributed subsidiary losses	(12,797,591)	(11,412,680)
Donated and other equities	7,570,208	7,011,501
Total equities and margins	38,340,924	38,402,841
LONG-TERM DEBT, less current maturities		
RUS mortgage notes	58,727,188	49,959,161
CFC mortgage notes	7,747,858	8,029,709
Loan payable	24,543,193	22,500,000
PPP loan	1,963,726	-
Long-term lease liability	512,058	600,368
Total long-term debt	93,494,023	81,089,238
CURRENT LIABILITIES		
Accounts payable	2,197,109	2,057,595
Customer deposits	72,900	85,259
Accrued liabilities	1,531,635	1,018,158
Current maturities of PPP loan	347,375	-
Line of credit	2,892,582	3,305,000
Current maturities of long-term debt and leases	2,223,226	1,833,126
Total current liabilities	9,264,827	8,299,138
DEFERRED CREDITS	363,606	310,733
Total equities, margins, and liabilities	\$ 141,463,380	\$ 128,101,950

Orcas Power & Light Cooperative and Subsidiary

Consolidated Statements of Revenues and Margins

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Electricity sales	\$ 31,785,990	\$ 30,822,724
Broadband sales	6,671,255	5,750,495
Total operating revenues	38,457,245	36,573,219
OPERATING EXPENSES		
Cost of purchased power	9,512,760	9,262,362
Transmission	388,576	458,165
Distribution - operations	3,570,350	3,604,825
Distribution - maintenance	2,825,081	2,170,783
Consumer accounts	1,093,791	1,097,439
Broadband services	781,668	849,127
Administrative and general	8,499,896	7,789,803
Depreciation and amortization	6,594,093	6,342,511
Taxes	1,748,707	1,654,674
Total operating expenses	35,014,922	33,229,689
Operating margins before fixed charges	3,442,323	3,343,530
FIXED CHARGES		
Interest on long-term debt	2,926,503	2,704,973
Operating margins after fixed charges	515,820	638,557
PATRONAGE CAPITAL CREDITS	122,952	125,254
Net operating margins	638,772	763,811
NONOPERATING MARGINS		
Interest income	89,550	123,252
Other income	265,703	2,186
Total nonoperating margins	355,253	125,438
NET MARGINS	<u>\$ 994,025</u>	<u>\$ 889,249</u>

Orcas Power & Light Cooperative and Subsidiary

Consolidated Statements of Changes in Patronage Capital and Other Equities

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Donated and Other Equities</u>	<u>Undistributed Subsidiary Equities</u>	<u>Total</u>
BALANCE, December 31, 2018	\$ 56,580	\$ 41,668,217	\$ 6,479,465	\$ (9,571,004)	\$ 38,633,258
Decrease in memberships, net	(225)	-	-	-	(225)
Net margins (losses)	-	2,730,925	-	(1,841,676)	889,249
Donated and returned capital	-	-	532,036	-	532,036
Retirement of capital credits, net	-	(1,651,477)	-	-	(1,651,477)
BALANCE, December 31, 2019	56,355	42,747,665	7,011,501	(11,412,680)	38,402,841
Increase in memberships, net	1,240	-	-	-	1,240
Net margins (losses)	-	2,378,936	-	(1,384,911)	994,025
Donated and returned capital	-	-	558,707	-	558,707
Retirement of capital credits, net	-	(1,615,889)	-	-	(1,615,889)
BALANCE, December 31, 2020	<u>\$ 57,595</u>	<u>\$ 43,510,712</u>	<u>\$ 7,570,208</u>	<u>\$ (12,797,591)</u>	<u>\$ 38,340,924</u>

Orcas Power & Light Cooperative and Subsidiary

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 994,025	\$ 889,249
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	6,594,093	6,342,511
Changes in assets and liabilities		
Accounts receivable	(458,144)	817,508
Interest receivable	18,039	(17,963)
Prepaid expenses	(72,073)	(33,319)
Deferred charges	(463,487)	(647,075)
Accounts payable	139,514	(708,525)
Customer deposits	(12,359)	1,402
Accrued liabilities	513,477	(138,496)
Deferred credits	52,873	(5,449)
Net cash from operating activities	<u>7,305,958</u>	<u>6,499,843</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(11,236,636)	(11,549,281)
Change in materials and supplies	(1,117,382)	508,605
Change in investments	<u>(51,518)</u>	<u>(77,083)</u>
Net cash used for investing activities	<u>(12,405,536)</u>	<u>(11,117,759)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(3,714,742)	(2,225,511)
Proceeds from debt	14,545,901	8,134,841
Proceeds from line of credit	-	455,000
Payments on line of credit	(412,418)	-
Proceeds from PPP loan	2,311,101	-
Cash contributions in aid of construction	1,764,326	1,319,524
Memberships, net	1,240	(225)
Retirements of patronage capital credits, net of donated and returned capital	<u>(1,057,182)</u>	<u>(1,119,441)</u>
Net cash from financing activities	<u>13,438,226</u>	<u>6,564,188</u>
NET CHANGE IN CASH	8,338,648	1,946,272
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,699,027</u>	<u>2,752,755</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 13,037,675</u></u>	<u><u>\$ 4,699,027</u></u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	<u><u>\$ 2,980,942</u></u>	<u><u>\$ 2,833,018</u></u>
Assets acquired through capital lease	<u><u>\$ 313,773</u></u>	<u><u>\$ 155,892</u></u>

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies

Organization – Orcas Power & Light Cooperative (OPALCO) is a power distribution and transmission cooperative organized in 1937 under the laws of the state of Washington for the purpose of supplying electric energy to its members. It serves 11,519 memberships, including 13,486 residential meters and 1,920 commercial and industrial meters distributing electricity to 20 islands in the San Juan archipelago, in Washington State. Substantially all revenues are derived from the sale and distribution of electric power. The Cooperative's Board of Directors has the authority to set rates and charges for commodities and services furnished.

In 2015, OPALCO formed a separate business entity, Island Network, LLC. The entity is a wholly owned (100%) subsidiary of OPALCO and is considered a for-profit limited liability corporation (LLC). Island Network, LLC was established to market the activity related to providing Internet and communications to the members. On February 6, 2015, Island Network acquired 100% of the outstanding stock of a nonrelated corporation, Rock Island, Inc. and began doing business as Rock Island Communications. The acquisition was funded through debt obtained by OPALCO from National Rural Utilities Cooperative Finance Corporation (CFC) and then subsequently loaned to Island Network, LLC for the purpose of the acquisition and start-up working capital. The acquisition of Rock Island, Inc. included an existing customer base, some back-office and customer-facing staff, and a retail store in Friday Harbor, Washington.

Principles of consolidation – The consolidated financial statements include the financial results of OPALCO and its wholly owned subsidiary, Island Network, LLC (collectively, the Cooperative). OPALCO has accounted for the investment using the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

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 by the United States Department of Agriculture, Rural Utilities Service (RUS).

Utility plant – Plant in service is stated at original cost of construction or acquisition. Cost generally includes materials, labor, and overhead costs. The cost of additions, renewals, and improvements is capitalized. Repairs, maintenance, and minor replacements are charged to operating expense.

When property, which represents a retirement unit, is replaced or removed, the average cost of such property, together with removal cost, less salvage, is charged to accumulated depreciation. Management assesses impairment and the existence of asset retirement obligations annually, or as circumstances warrant. No impairment was recorded as of December 31, 2020 and 2019.

Depreciation rates have been applied on a straight-line basis. Transmission plant is depreciated using a composite rate of 2.75%, except for submarine cable, for which the rate is 2.86%. Distribution plant and broadband plant are depreciated using a composite rate of 3.17%.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

General plant depreciation rates are as follows:

Structures and improvements	3.00%
Office furniture and equipment	5.19%
Transportation equipment	20.00%
Tools and equipment	15.00%
Power-operated equipment	30.00%
Communication equipment	10.00%–20.00%
Other general plant	20.00%
Computer network	20.00%–33.33%

Goodwill – Goodwill resulted from the acquisition of Rock Island, Inc. in February 2015. The acquisition was a 100% stock purchase of Rock Island, Inc. and included the customer base, employees, and retail store. Goodwill is being amortized over 10 years. Amortization expense was \$31,074 for the years ended December 31, 2020 and 2019.

Cash equivalents – The Cooperative considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The board of directors of the Cooperative may designate certain amounts of cash and cash equivalents for future use at the board's discretion and approval. At year-end, board designated cash was \$6,376,648 and \$538,698 in 2020 and 2019, respectively.

Accounts receivable – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. Accounts receivable are reviewed for collectability on a regular basis, and an allowance for doubtful accounts is estimated considering the Cooperative's historical losses and review of specific accounts.

Materials and supplies – The inventory of materials and supplies consists primarily of items for construction and maintenance of electric plant and broadband plant and is valued at average unit cost.

Investments in associated organizations – The Cooperative's investments in associated organizations (Note 4) are stated at cost, plus patronage capital credits issued, less distributions received.

Deferred charges – In 2019, OPALCO launched an on-bill financing program called Switch-It-Up to finance member energy efficiency & savings measures. The program operates as an opt-in utility energy conservation tariff. The current portion of financing receivables is included on the balance sheet with accounts receivable. The deferred charges represent the long-term financing receivable.

Compensated absences – Employees of the Cooperative accrue vacation ratably over the year based on tenure and are allowed to carry over to the following year up to one year of accumulated vacation, which is earned at a rate of 12 to 25 days per year. Employees are compensated for unused vacation pay upon separation from employment. Compensated absences in the amount of \$312,641 and \$240,800 are included in accrued liabilities as of December 31, 2020 and 2019, respectively.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Patronage capital – Net margins are assigned to patrons upon closing of each calendar year. Capital credits of deceased patrons are redeemed on a less-than-full-value basis and paid to the estate of the patron upon approval by the Board of Directors. In addition, business patrons may, at the discretion of the Board of Directors, receive a less-than-full-value cash settlement when they leave the system. Other capital distributions may be made at the discretion of the Board of Directors. Capital credits may be applied against delinquent accounts receivable balances upon approval by the Board of Directors. For the years ended December 31, 2020 and 2019, the Board of Directors approved a \$1.3 million patronage retirement, based on a 25-year first-in, first-out (FIFO) cycle.

Revenue recognition – OPALCO revenue is recognized when obligations under the terms of a contract with members are satisfied. Generally, this satisfaction of performance obligations and transfer of control occurs, and revenues are recognized as electricity is consumed based upon monthly meter readings, assessment of base fees, and other monthly charges. The prices charged, and amount of consideration the Cooperative receives in exchange for its goods and services provided, are established and approved by the Cooperative's Board of Directors. The Cooperative recognizes revenue through the following steps: (i) identifying the contract with the member; (ii) identifying the performance obligations in the contract; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations; and (v) recognizing revenue when or as each performance obligation is satisfied.

In addition, the Cooperative records unbilled revenue for revenues from electric power delivered but not yet billed. OPALCO estimates and records unbilled revenue from electric power delivered, but not yet billed, for services provided to the end of the year. At December 31, 2020 and 2019, unbilled revenue of \$1,318,781 and \$1,272,107, respectively, was included in the accounts receivable balance.

Broadband revenues are derived from subscription or usage-based agreements billed to its customers throughout the month based on contractually agreed terms. Generally, subscription agreements are month-to-month and are for a fixed price. Broadband revenues are recognized when all the following conditions are satisfied: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed or determinable, and (iv) collectability of the fee is reasonably assured. At December 31, 2020 and 2019, unearned revenue of \$452,289 and \$230,264, respectively, was included in accrued liabilities. For further information regarding changes to the Cooperative's revenue recognition accounting policies, see Note 13.

Income tax status – OPALCO is exempt from 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.

Island Network, LLC, has elected to be taxed as a C-corporation and is taxable for federal income tax purposes. For Island Network, LLC, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements, consisting of taxes currently due plus deferred taxes.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for taxable temporary differences and deferred tax liabilities are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to net operating loss carryforwards, contributions in aid of construction, capitalized organization cost and accumulated amortization on the books. Deferred tax liabilities relate primarily to the use of accelerated depreciation for tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Cooperative follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, which relates to accounting for uncertain tax positions. The Cooperative records uncertain tax positions if the likelihood that the position will be sustained upon examination is less than 50%. As of December 31, 2020 and 2019, the Cooperative had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

Use of estimates – In preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. These estimates include the allowance for doubtful accounts, unbilled revenue, tax valuation allowance and depreciation of plant. Actual results could differ from those estimates.

Concentration of credit risk – Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Cooperative maintains its cash and cash equivalents in various financial institutions. At times, these balances exceed federally insured limits.

Credit is extended to customers generally without collateral requirements; however, the Cooperative requires deposits from some members upon connection, which is applied to unpaid bills in the event of default. Capital credits may be applied against delinquent accounts, upon approval by the board of directors.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Organization and Summary of Significant Accounting Policies (continued)

Recently issued accounting pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Cooperative is evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Cooperative recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheets, including the estimates inherent in the process of preparing the consolidated financial statements. The Cooperative's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheets but arose after the consolidated balance sheet date and before the consolidated financial statements are available to be issued. The Cooperative has evaluated subsequent events through May 13, 2021, which is the date the consolidated financial statements are issued.

Note 2 – Cash and Cash Equivalents

The Cooperative holds various cash accounts in the normal conduct of its business. As of December 31, total cash and cash equivalents reported on the consolidated balance sheets were as follows:

	2020	2019
Petty cash funds	\$ 1,130	\$ 1,130
Cash in FDIC institutions	6,995,151	4,538,879
Cash in CoBank	6,041,394	159,018
	<u>\$ 13,037,675</u>	<u>\$ 4,699,027</u>

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 3 – Plant in Service

Plant in service consisted of the following major classes at December 31:

	2020	2019
Generation	\$ 559	\$ 559
Transmission	34,301,350	34,304,853
Distribution	85,089,997	82,090,252
General plant	28,035,072	26,366,003
Broadband plant	21,540,507	19,409,714
Intangible plant	1,539,562	1,539,562
	<u>\$ 170,507,047</u>	<u>\$ 163,710,943</u>
Total plant in service		

The Cooperative assesses new members an amount equal to the estimated average cost of initial hookups. These contributions in aid of construction are credited to the appropriate work orders to offset the construction costs and are recorded as a reduction in gross plant in accordance with accounting requirements for RUS borrowers. Contributions in aid of construction in the amount of \$1,764,326 and \$1,319,524 were recorded during 2020 and 2019, respectively.

Note 4 – Investments in Associated Organizations

Investments in associated organizations consisted of the following as of December 31:

	2020	2019
Capital term certificates of National Rural Utilities Cooperative Finance Corporation (CFC), interest from 3% to 5%, with maturities from 2020 through 2080	\$ 536,474	\$ 558,274
Capital term certificate from Pacific Northwest Generating Cooperative, interest at 0%, maturing in September 2028	502,560	502,560
Patronage capital credits in CFC	292,682	289,196
Patronage capital credits in National Information Solutions Cooperative (NISC)	113,421	111,854
Patronage capital in Federated Rural Electric Insurance Exchange	240,404	228,185
Patronage capital credits in Pacific Northwest Generating Cooperative	165,533	110,216
Patronage capital - others	15,437	14,708
	<u>\$ 1,866,511</u>	<u>\$ 1,814,993</u>
Total investments in associated organizations		

CFC capital term certificates are purchased as a condition of the mortgage agreements with CFC. The certificates are nonmarketable and may not be redeemed prior to maturity.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Related-Party Transactions

There is an intercompany loan between Island Network LLC and OPALCO for acquisition funding and transferred infrastructure and inventory from the Island Network Department to OPALCO. On December 31, 2020, OPALCO's investment in subsidiary of \$(10,664,353) represents the intercompany loan of \$2,133,238 less undistributed subsidiary losses of \$12,797,591. The liability and associated investment are eliminated upon consolidation.

During 2020 and 2019, OPALCO incurred \$79,471 and \$79,346, respectively, in interest income associated with advances taken by Rock Island Communications. This income has been eliminated upon consolidation.

During 2020 and 2019, OPALCO incurred \$306,312 and \$240,129, respectively, in costs associated with customer fees for Internet services provided by Rock Island Communications. OPALCO also billed the subsidiary for the use of electricity in the amount of \$139,445 and \$115,821, for 2020 and 2019 respectively, and billed for use of OPALCO's communication infrastructure in the amount of \$89,976 in both 2020 and 2019. These intercompany balances have been eliminated upon consolidation.

Note 6 – Lines of Credit

The Cooperative has an unsecured perpetual line of credit for short-term financing with CFC in the amount of \$10,000,000. Interest on outstanding advances is based upon a variable rate. No amounts were outstanding at December 31, 2020 and 2019.

In January 2011, the Cooperative established an unsecured perpetual line of credit with CoBank in the amount of \$5,000,000. This line of credit was renewed in 2019, with a \$2,000,000 "Revolving Credit Commitment" and \$3,000,000 "Uncommitted Revolving Credit," with expiration in September 2021; no loan advances have been made on this account in 2020 or 2019.

In November 2019, Island Network, LLC executed an amendment to its existing revolving credit promissory note with CoBank increasing the total aggregate principal commitment from \$3,000,000 to \$3,500,000. Draws on the revolving credit promissory note are at variable interest rates measured at the time of advance. The loan term expires in September 2021, and is renewed each year at the discretion of CoBank. The note is guaranteed by OPALCO. Advances outstanding on the revolving credit promissory note were \$2,892,582 with an interest rate of 3.89% as of December 31, 2020, and \$3,305,000 as of December 31, 2019.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 7 – Long-Term Debt and Capital Lease Obligations

The Cooperative has long-term debt due to RUS and CFC. Substantially all assets of the Cooperative are pledged as security for the long-term debt, and the notes are subject to certain covenants. Long-term debt consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Mortgages payable to RUS, quarterly installments of approximately \$420,000, including interest at rates ranging from 1.43% to 5.82%, maturing over various periods through December 2052.	\$ 59,350,726	\$ 51,328,647
Mortgages payable to CFC, quarterly installments of approximately \$70,000, including interest at rates ranging from 3.55% to 4.7%, maturing over various periods through 2039.	8,029,709	8,300,502
RUS Rural Energy Savings Program (RESP) loan, payable in monthly installments of approximately \$4,200 bearing 0% interest, maturing December 2029.	685,782	232,000
CoBank loan, payable in monthly interest only installments of approximately \$30,000. Interest rates ranging from 3.32% to 4.61%. Maturing over various periods through 2046.	<u>25,002,128</u>	<u>22,500,000</u>
Long-term debt	93,068,345	82,361,149
Capital lease obligations, stated at present value of future minimum lease payments	<u>685,178</u>	<u>561,215</u>
	93,753,523	82,922,364
Less current maturities of long-term debt and capital lease obligations	<u>2,223,226</u>	<u>1,833,126</u>
	<u>\$ 91,530,297</u>	<u>\$ 81,089,238</u>

The aggregate long-term debt and capital lease obligations maturing over the next five years are as follows:

2021	\$ 2,223,226
2022	2,892,757
2023	3,223,907
2024	4,112,550
2025	3,844,042
Thereafter	<u>77,457,041</u>
	<u>\$ 93,753,523</u>

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 7 – Long-Term Debt and Capital Lease Obligations (continued)

Capital lease obligations – Outstanding capital leases collateralized by the related equipment consisted of the following as of December 31, 2020:

Originated	Entity	Type	Amount	Interest Rate	Maturity Date
2019	OPALCO	Computer equipment	\$ 19,562	0.00%	January 2022
2019	Island Network	Computer equipment	\$ 30,421	2.11%	January 2022
2019	Island Network	Computer equipment	\$ 7,521	2.11%	February 2022
2018	Island Network	Vehicles	\$ 55,325	4.60%	March 2025
2018	Island Network	Vehicles	\$ 37,189	4.25%	October 2025
2020	Island Network	Computer equipment	\$ 238,999	1.25%	September 2025
2017	Island Network	Construction equipment	\$ 296,161	4.30%	December 2025

Note 8 – Operating Lease Commitments

Operating leases – Island Network, LLC leases equipment under a five-year noncancelable operating lease expiring in May 2024.

Future minimum lease payments, under noncancelable operating leases, are as follows:

2021	\$ 147,902
2022	81,902
2023	75,902
2024	75,902
	<u>\$ 381,608</u>

Rent expense under the operating lease for the years ended December 31, 2020 and 2019, was \$147,902 and \$114,837.

Note 9 – Paycheck Protection Program

In April 2020, the OPALCO received loan proceeds of \$1,790,016 and Rock Island received loan proceeds of \$521,085 under the Paycheck Protection Program (the PPP loans). The Paycheck Protection Program (PPP) was established under the recent congressionally approved Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) and is administered by the U.S. Small Business Administration (SBA). The PPP loan to OPALCO is being made through KeyBank National Association. The PPP loan to Rock Island is being made through CoBank. The original term of the PPP loans was two years, which can be extended to five years by mutual agreement of the Cooperative and SBA. The annual interest rate on the PPP loans is 1%. Under the terms of the loans, a portion of or all of the loans are forgivable to the extent the loans proceeds are used to fund qualifying payroll, rent, and utilities during a designated period (covered period). While the Cooperative believes that it has acted in compliance with the program and plans to seek full forgiveness of the PPP loans, no assurance can be provided that the Cooperative will obtain forgiveness of the PPP loans in whole or in part.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 10 – Income Taxes

The components of the provision for income tax benefit (expense) are as follows as of December 31, 2020:

	2020	2019
Deferred income tax benefit (expense)		
Federal	\$ 284,093	\$ 378,561
Change in valuation allowance	(284,093)	(378,561)
	<u>\$ -</u>	<u>\$ -</u>
Total income tax expense	<u>\$ -</u>	<u>\$ -</u>

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before taxes due to the effects of nondeductible items, the change in the valuation allowance, and prior-year over or under accruals.

The components of the net deferred tax asset (liability) recorded in the accompanying consolidated balance sheets at December 31 are as follows:

	2020	2019
Deferred tax assets		
Net operating loss carryforward	\$ 3,258,285	\$ 3,000,960
Allowance for bad debts	1,489	1,191
Capitalized organizational costs	8,960	8,960
Contribution timing differences	2,603	2,603
Accrued liabilities	4,799	1,787
	<u>3,276,136</u>	<u>3,015,501</u>
Less valuation allowance	<u>(2,640,620)</u>	<u>(2,358,052)</u>
Total deferred tax assets	<u>635,516</u>	<u>657,449</u>
Deferred tax liabilities		
Tax depreciation greater than book	(609,971)	(643,421)
Tax amortization greater than book	(3,534)	(2,937)
Change in prepaid insurance	(22,011)	(11,091)
	<u>(635,516)</u>	<u>(657,449)</u>
Total deferred tax liabilities	<u>(635,516)</u>	<u>(657,449)</u>
Net deferred income tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

Island Network, LLC has federal net operating loss carryforwards of \$15,515,647, which begin to expire in 2035.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was enacted. The CARES Act changed net loss carryforward and back provisions and the business interest expense limitation. The Cooperative has evaluated the impact of the CARES Act and determined that none of the changes would result in a material cash benefit to the Cooperative.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 11 – Deferred Credits

As of December 31, 2020 and 2019, amounts carried on the Cooperative's consolidated balance sheets as deferred credits consisted primarily of Project PAL funds of \$31,021 and \$34,161, respectively; the Member Owned Renewable Energy (MORE) Program funds of \$112,123 and \$126,045, respectively; and the Energy Assist Program for \$112,843 and \$68,508 for 2020 and 2019, respectively; and deferred revenue collected for the Decatur Community Solar array future maintenance costs, the excess contribution is being recognized on a straight line basis over the term of the community solar agreements, or 20 years, and carried a balance of \$74,462 and \$78,697 at December 31, 2020 and 2019, respectively.

Project PAL was developed to help qualifying OPALCO members pay their winter heating bills. Project PAL is primarily funded by members voluntarily rounding up their monthly power bills to the next whole dollar. Requests for assistance are evaluated and grants are awarded by a separate council made up of volunteer OPALCO members. The council, by unanimous vote, reserves the right to allow or deny any grants due to extenuating circumstances. Policy and guidelines are reviewed by a volunteer council on a regular basis.

The MORE Program was started in 2011. It is funded by voluntary contributions from Cooperative members for projects that promote sustainable, renewable energy. Once a year, Cooperative members who install renewable energy systems, such as a solar photovoltaic system or wind turbines, are offered an incentive based on the kWh production of their renewable energy system. Incentives are administered through an independent committee of Cooperative members. The member-owned generation facilities will allow the member generator to consume energy generated by their system, which will offset the amount of energy purchased by the Cooperative. All renewable energy systems are required to be preapproved by the engineering department prior to construction.

OPALCO's Energy Assist Program was started in 2016 to assist low income households with their OPALCO electric bills on a year-round basis. This is an OPALCO administered program that is meant to ease the affordability gap in San Juan County and support the community. The program is funded through rates as a separate line item on each co-op member's monthly bill. Members must be on the standard Residential rate and verify their qualification through another endorsed low-income assistance program to qualify for the Energy Assist Credit.

Note 12 – Pension Benefits

In 1954, 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.

Defined benefit plan – The 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 multi-employer plan under the accounting standards. The RS Plan sponsor's employer identification number is 53-0116145 and the Plan Number is 48009.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 12 – Pension Benefits (continued)

A unique characteristic of a multi-employer plan compared with 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.

Generally, all employees of the Cooperative are eligible to participate in the defined benefit plan after completing a year of eligible service. Employees are credited with meeting the year of eligible service after completing at least 1,000 hours of service in the first 12 consecutive months of employment or in the first calendar year in which 1,000 hours of service occur. 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 RS Plan was 93.13% and 91.17% funded as of January 1, 2020 and 2019, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. The average increase in rates of compensation for the defined benefit plan as a whole for the year beginning January 1, 2020, was 3.01%. The defined benefit plan used an assumed 20.16% return on plan assets in the most recent system-wide annual actuarial valuation. The defined benefit plan invests in equity and debt securities and cash equivalents.

The Cooperative’s contributions to the RS Plan in 2020 and in 2019 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative makes monthly contributions to the RS Plan at the required contribution rate. Contributions made by the Cooperative were \$1,628,259 and \$1,405,926 for the years ended December 31, 2020 and 2019, respectively. Withdrawal from the RS Plan may result in the Cooperative having an obligation to the plan. The Cooperative does not currently intend to withdraw from the RS Plan, and, accordingly, no provision has been included in the accompanying consolidated financial statements.

Defined contribution plan – Upon completion of 30 days of eligibility service, all eligible employees of the Cooperative may participate in the defined contribution plan and may elect to make pre-tax employee elective contributions up to 100% of the participant’s salary to a maximum of \$19,500. Upon completion of a year of eligible service, the Cooperative will match employee contributions equal to 100% of employee elective contributions, not to exceed 4% of an employee’s annual compensation. The Cooperative employer portion of the 401(k) plan contributions totaled \$258,128 and \$176,509 for the years ended December 31, 2020 and 2019, respectively.

Postemployment benefits – The Cooperative allows employees to remain in its medical plan after retirement, but the employee is required to pay the full group medical rate. Although a group rate includes a deemed subsidy for retirees, management has determined that the impact on financial position and results of operations is not material and has not recognized a liability for such benefit.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 13 – Commitments and Contingencies

Power supply contracts – In October 2017, OPALCO entered into a power sales contract with Pacific Northwest Generating Cooperative (PNGC) to provide the power supply through September 30, 2028. This contract supersedes the previous power sales contract with Bonneville Power Administration (BPA).

Union contract – The current collective bargaining agreement is in effect for the period January 1, 2019 through December 31, 2023. As of December 31, 2020, the Cooperative employed approximately 73% of its workforce under collective bargaining agreement.

Legal – In the normal course of business, the Cooperative is 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.

T-Mobile agreement – During 2015, Island Network, LLC established a long-term agreement with T-Mobile US to deploy LTE wireless capability throughout San Juan County. The nonmonetary agreement has an initial term of 10 years with extension options and includes the joint lease of FCC spectrum, transfer of infrastructure and equipment, and ongoing services. As the fair value of the assets agreement is not determinable within reasonable limits, the agreement, per GAAP, has not been quantified within the financial statements. The investment was made with the intention to assist Island Network, LLC in bringing a profitable product faster to market and serve a higher number of subscribers.

Note 14 – Revenue Recognition

The following table presents the Cooperative's revenue, disaggregated by member type for the year ended December 31:

	2020	2019
OPALCO		
Residential electric	\$ 23,923,145	\$ 22,563,266
Commercial electric, public lighting, and other	7,862,845	8,259,458
Total	<u>31,785,990</u>	<u>30,822,724</u>
Island Network, LLC		
Broadband services	5,765,344	5,030,550
IT services	408,321	243,978
Other revenues	497,590	475,967
Total	<u>6,671,255</u>	<u>5,750,495</u>
	<u><u>\$ 38,457,245</u></u>	<u><u>\$ 36,573,219</u></u>

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 14 – Revenue Recognition (continued)

OPALCO

Residential electric and commercial electric and public lighting

The Cooperative's primary revenue source is generated through the sale of electricity to members. Retail members are primarily classified as residential or commercial. Residential members include single family housing, multiple family housing (such as apartments, duplexes, and town homes), manufactured homes, and small farms. Commercial members consist of nonresidential members who accept energy deliveries at voltages equivalent to those delivered to residential members. Commercial members include most businesses, small industrial companies, and public street and highway lighting accounts.

The Cooperative's retail member prices are based on the Cooperative's cost of service and are approved by the Cooperative's Board of Directors. The Cooperative's obligation to sell electricity to retail members 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 member that is satisfied over time as members simultaneously receive and consume 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 member.

Rock Island, Inc.

Rock Island's primary revenues are derived from three distinct revenue streams, broadband services (fiber optic, and fixed wireless), IT services, and other services provided to customers.

Broadband services

Revenue is generated from subscribers to high-speed internet and wireless Internet services. Revenue is recognized as services are provided on a monthly basis. Subscription rates and related charges vary according to the services and features customers receive. Customers are typically billed in advance and pay on a monthly basis. While a portion of the customers are subject to contracts for their services, which are typically one to two years in length, based on the evaluation of the terms of these contracts, revenue is recognized for these services on a basis that is consistent with the customers that are not subject to contracts.

The obligation to sell broadband services 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 customers simultaneously receive and consume the benefits provided.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 14 – Revenue Recognition (continued)

IT services

Revenue is generated from subscribers to a variety of our products and services, which are offered to businesses. The service offerings for small business locations primarily include high-speed Internet services that are similar to those provided to residential customers, as well as cloud-based cybersecurity services, wireless backup connectivity, advanced Wi-Fi solutions, and video monitoring services. Rock Island also offers Ethernet network services that connect multiple locations and provide higher downstream and upstream speed options to medium-sized customers and larger enterprises. In addition, Rock Island provides backhaul services to network operators to help them manage their network bandwidth.

Revenue is recognized as services are provided on a monthly basis. Substantially all of the customers are initially under contracts, with terms typically ranging from one to three years. Customers with contracts may only discontinue service in accordance with the terms of their contracts. Payments are received based on a billing schedule established in the contracts, which is typically on a monthly basis. If a contract is separated into more than one performance obligation, the total transaction price is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation.

Other revenues

Revenue is generated from subscribers for ancillary services and from affiliate partnership commissions. The ancillary service offerings consist of email, managed Wi-Fi, cybersecurity, and other services that can be sold to residential customers and are not dependent on subscribing to high-speed internet. Revenue is recognized as services are provided on a monthly basis. Subscription rates and related charges vary according to the services and features customers receive. Customers are typically billed in advance and pay on a monthly basis. Customers subscribing to ancillary services are seldom subject to contracts and therefore revenue is recognized for these services on a basis that is consistent with the customers that are not subject to contracts.

Rock Island's obligation to sell ancillary services 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 customers simultaneously receive and consume the benefits provided.

Rock Island maintains partnerships with several affiliate companies that entitle Rock Island to compensation for referrals of the customers to the affiliates. Referral revenues come in the form of sales commissions pursuant to activities in our retail store in Friday Harbor, and also from referral sales to residential and small business customers for VOIP services provided by partners. Revenue is recognized as commissions are settled from the partners in the month related to the sales activity for that particular service.

Supplementary Information

Orcas Power & Light Cooperative

Consolidating Balance Sheet

December 31, 2020

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
ASSETS				
Electric plant in service	\$ 148,966,540	\$ -	\$ -	\$ 148,966,540
Broadband plant in service	-	21,540,507	-	21,540,507
Construction work in progress	6,633,154	1,412,354	-	8,045,508
	155,599,694	22,952,861	-	178,552,555
Less accumulated depreciation and amortization	58,016,597	5,614,568	-	63,631,165
Net utility plant	97,583,097	17,338,293	-	114,921,390
INVESTMENTS AND OTHER ASSETS				
Investments in associated organizations	1,866,511	-	-	1,866,511
Investment in subsidiary (Note 5)	(10,664,353)	-	10,664,353	-
Goodwill	-	126,886	-	126,886
Total investments and other assets	(8,797,842)	126,886	10,664,353	1,993,397
CURRENT ASSETS				
Cash and cash equivalents	6,475,386	185,641	-	6,661,027
Cash and cash equivalents - board designated	6,376,648	-	-	6,376,648
Accounts receivable, net of allowance for doubtful accounts of \$67,090 in 2020	4,286,644	312,107	(19,409)	4,579,342
Interest receivable	6,240	-	-	6,240
Materials and supplies	3,460,300	1,687,080	-	5,147,380
Prepaid expenses	491,535	175,859	-	667,394
Total current assets	21,096,753	2,360,687	(19,409)	23,438,031
DEFERRED CHARGES	1,110,562	-	-	1,110,562
TOTAL ASSETS	<u>\$ 110,992,570</u>	<u>\$ 19,825,866</u>	<u>\$ 10,644,944</u>	<u>\$ 141,463,380</u>
EQUITIES AND MARGINS				
Memberships	\$ 57,595	\$ -	\$ -	\$ 57,595
Patronage capital	43,510,712	-	-	43,510,712
Undistributed subsidiary losses	(12,797,591)	(12,797,591)	12,797,591	(12,797,591)
Donated and other equities	7,570,208	-	-	7,570,208
Total equity and margins	38,340,924	(12,797,591)	12,797,591	38,340,924
LONG-TERM DEBT, less current maturities				
RUS mortgage notes	58,727,188	-	-	58,727,188
CFC mortgage notes	7,747,858	-	-	7,747,858
Loan payable	-	24,543,193	-	24,543,193
PPP loan	1,442,641	521,085	-	1,963,726
Payable to OPALCO (Note 5)	-	2,133,238	(2,133,238)	-
Long-term lease liability	1,505	510,553	-	512,058
Total long-term debt	67,919,192	27,708,069	(2,133,238)	93,494,023
CURRENT LIABILITIES				
Accounts payable	1,498,762	717,756	(19,409)	2,197,109
Customer deposits	72,900	-	-	72,900
Accrued liabilities	840,583	691,052	-	1,531,635
Current maturities of PPP loan	347,375	-	-	347,375
Line of credit	-	2,892,582	-	2,892,582
Current maturities of long-term debt and leases	1,609,228	613,998	-	2,223,226
Total current liabilities	4,368,848	4,915,388	(19,409)	9,264,827
DEFERRED CREDITS	363,606	-	-	363,606
EQUITIES, MARGINS, AND LIABILITIES	<u>\$ 110,992,570</u>	<u>\$ 19,825,866</u>	<u>\$ 10,644,944</u>	<u>\$ 141,463,380</u>

Orcas Power & Light Cooperative
Consolidating Balance Sheet
December 31, 2019

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
ASSETS				
Electric plant in service	\$ 144,301,229	\$ -	\$ -	\$ 144,301,229
Broadband plant in service	-	19,409,714	-	19,409,714
Construction work in progress	5,015,317	838,614	-	5,853,931
	149,316,546	20,248,328	-	169,564,874
Less accumulated depreciation and amortization	53,456,306	4,065,395	-	57,521,701
Net utility plant	95,860,240	16,182,933	-	112,043,173
INVESTMENTS AND OTHER ASSETS				
Investments in associated organizations	1,814,993	-	-	1,814,993
Investment in subsidiary (Note 5)	(9,279,459)	-	9,279,459	-
Goodwill	-	157,960	-	157,960
Total investments and other assets	(7,464,466)	157,960	9,279,459	1,972,953
CURRENT ASSETS				
Cash and cash equivalents	3,928,583	231,746	-	4,160,329
Cash and cash equivalents - board designated	538,698	-	-	538,698
Accounts receivable, net of allowance for doubtful accounts of \$65,671 in 2019	3,910,241	242,374	(31,417)	4,121,198
Interest receivable	24,279	-	-	24,279
Materials and supplies	3,006,903	1,023,095	-	4,029,998
Prepaid expenses	452,012	112,235	-	564,247
Total current assets	11,860,716	1,609,450	(31,417)	13,438,749
DEFERRED CHARGES	647,075	-	-	647,075
TOTAL ASSETS	<u>\$ 100,903,565</u>	<u>\$ 17,950,343</u>	<u>\$ 9,248,042</u>	<u>\$ 128,101,950</u>
EQUITIES AND MARGINS				
Memberships	\$ 56,355	\$ -	\$ -	\$ 56,355
Patronage capital	42,747,665	-	-	42,747,665
Undistributed subsidiary losses	(11,412,680)	(11,412,680)	11,412,680	(11,412,680)
Donated and other equities	7,011,501	-	-	7,011,501
Total equity and margins	38,402,841	(11,412,680)	11,412,680	38,402,841
LONG-TERM DEBT, less current maturities				
RUS mortgage notes	49,959,161	-	-	49,959,161
CFC mortgage notes	8,029,709	-	-	8,029,709
Loan payable	-	22,500,000	-	22,500,000
Payable to OPALCO (Note 5)	-	2,133,221	(2,133,221)	-
Long-term lease liability	251,562	348,806	-	600,368
Total long-term debt	58,240,432	24,982,027	(2,133,221)	81,089,238
CURRENT LIABILITIES				
Accounts payable	1,622,227	466,785	(31,417)	2,057,595
Customer deposits	85,259	-	-	85,259
Accrued liabilities	583,736	434,422	-	1,018,158
Line of credit	-	3,305,000	-	3,305,000
Current maturities of long-term debt and leases	1,658,337	174,789	-	1,833,126
Total current liabilities	3,949,559	4,380,996	(31,417)	8,299,138
DEFERRED CREDITS	310,733	-	-	310,733
EQUITIES, MARGINS, AND LIABILITIES	<u>\$ 100,903,565</u>	<u>\$ 17,950,343</u>	<u>\$ 9,248,042</u>	<u>\$ 128,101,950</u>

Orcas Power & Light Cooperative
Consolidating Statement of Revenues and Margins
Year Ended December 31, 2020

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
OPERATING REVENUES				
Electricity sales	\$ 31,925,435	\$ -	\$ (139,445)	\$ 31,785,990
Broadband sales	-	6,977,567	(306,312)	6,671,255
Total operating revenues	31,925,435	6,977,567	(445,757)	38,457,245
OPERATING EXPENSES				
Cost of purchased power	9,512,760	-	-	9,512,760
Transmission	388,576	-	-	388,576
Distribution - operations	3,570,350	-	-	3,570,350
Distribution - maintenance	2,825,081	-	-	2,825,081
Consumer accounts	1,093,791	-	-	1,093,791
Broadband services	-	1,011,089	(229,421)	781,668
Administrative and general	4,198,308	4,607,900	(306,312)	8,499,896
Depreciation and amortization	5,015,406	1,578,687	-	6,594,093
Taxes	1,514,553	234,154	-	1,748,707
Total operating expenses	28,118,825	7,431,830	(535,733)	35,014,922
Operating margins before fixed charges	3,806,610	(454,263)	89,976	3,442,323
FIXED CHARGES				
Interest on long-term debt	1,966,936	1,039,038	(79,471)	2,926,503
Operating margins after fixed charges	1,839,674	(1,493,301)	169,447	515,820
PATRONAGE CAPITAL CREDITS	122,952	-	-	122,952
Net operating margins	1,962,626	(1,493,301)	169,447	638,772
NONOPERATING MARGINS				
Interest income	169,021	-	(79,471)	89,550
Other income	247,289	108,390	(89,976)	265,703
Total nonoperating margins	416,310	108,390	(169,447)	355,253
Net operating and nonoperating margins	2,378,936	(1,384,911)	-	994,025
LOSS FROM SUBSIDIARY	(1,384,911)	-	1,384,911	-
NET MARGINS	\$ 994,025	\$ (1,384,911)	\$ 1,384,911	\$ 994,025

Orcas Power & Light Cooperative
Consolidating Statement of Revenues and Margins
Year Ended December 31, 2019

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
OPERATING REVENUES				
Electricity sales	\$ 30,938,545	\$ -	\$ (115,821)	\$ 30,822,724
Broadband sales	-	5,990,624	(240,129)	5,750,495
Total operating revenues	30,938,545	5,990,624	(355,950)	36,573,219
OPERATING EXPENSES				
Cost of purchased power	9,262,362	-	-	9,262,362
Transmission	458,165	-	-	458,165
Distribution - operations	3,604,825	-	-	3,604,825
Distribution - maintenance	2,170,783	-	-	2,170,783
Consumer accounts	1,097,439	-	-	1,097,439
Broadband services	-	1,054,924	(205,797)	849,127
Administrative and general	3,846,904	4,183,028	(240,129)	7,789,803
Depreciation and amortization	4,923,805	1,418,706	-	6,342,511
Taxes	1,444,843	209,831	-	1,654,674
Total operating expenses	26,809,126	6,866,489	(445,926)	33,229,689
Operating margins before fixed charges	4,129,419	(875,865)	89,976	3,343,530
FIXED CHARGES				
Interest on long-term debt	1,820,581	963,738	(79,346)	2,704,973
Operating margins after fixed charges	2,308,838	(1,839,603)	169,322	638,557
PATRONAGE CAPITAL CREDITS	125,254	-	-	125,254
Net operating margins	2,434,092	(1,839,603)	169,322	763,811
NONOPERATING MARGINS				
Interest income	202,598	-	(79,346)	123,252
Other income	94,235	(2,073)	(89,976)	2,186
Total nonoperating margins	296,833	(2,073)	(169,322)	125,438
Net operating and nonoperating margins	2,730,925	(1,841,676)	-	889,249
LOSS FROM SUBSIDIARY	(1,841,676)	-	1,841,676	-
NET MARGINS	<u>\$ 889,249</u>	<u>\$ (1,841,676)</u>	<u>\$ 1,841,676</u>	<u>\$ 889,249</u>

