REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

ORCAS POWER & LIGHT COOPERATIVE AND SUBSIDIARY

December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
Orcas Power & Light Cooperative and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Orcas Power & Light Cooperative and Subsidiary (collectively, the Cooperative), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Orcas Power & Light Cooperative and Subsidiary, as of December 31, 2021 and 2020, and the results of 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 Opinion

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 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cooperative's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets as of December 31, 2021 and 2020, 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 basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional 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 12, 2022, on our consideration of Orcas Power & Light Cooperative and Subsidiary'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 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 Cooperative's 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 Cooperative's internal control over financial reporting and compliance.

Moss Adams LLP

Everett, Washington
May 12, 2022

Orcas Power & Light Cooperative and Subsidiary
Consolidated Balance Sheets

ASSETS

	December 31, 2021	December 31, 2020
UTILITY PLANT, at cost		
Electric plant in service	$ 156,749,824	$ 148,966,540
Broadband plant in service	25,977,570	21,540,507
Construction work in progress	4,524,013	8,045,508
	187,251,407	178,552,555
Less accumulated depreciation and amortization	70,161,395	63,631,165
Net utility plant	117,090,012	114,921,390
INVESTMENTS AND OTHER ASSETS		
Investments in associated organizations	2,952,951	1,866,511
Goodwill	95,812	126,886
Total investments and other assets	3,048,763	1,993,397
CURRENT ASSETS		
Cash and cash equivalents	8,143,364	6,661,027
Cash and cash equivalents - board designated	3,081,838	6,376,648
Accounts receivable, net of allowance for doubtful accounts of $68,391 and $67,090 in 2021 and 2020	5,825,563	4,579,342
Interest receivable	6,800	6,240
Materials and supplies	5,776,202	5,147,380
Prepaid expenses	743,083	667,394
Total current assets	23,576,850	23,438,031
DEFERRED CHARGES	1,518,849	1,110,562
Total assets	$ 145,234,474	$ 141,463,380

See accompanying notes.

EQUITIES, MARGINS, AND LIABILITIES

	December 31, 2021	December 31, 2020
EQUITIES AND MARGINS		
Memberships	$ 58,225	$ 57,595
Patronage capital	45,286,110	43,510,712
Undistributed subsidiary losses	(13,229,022)	(12,797,591)
Donated and other equities	10,015,079	7,570,208
Total equities and margins	42,130,392	38,340,924
LONG-TERM DEBT, less current maturities		
RUS mortgage notes	56,342,663	58,727,188
CFC mortgage notes	7,454,617	7,747,858
Loan payable	27,891,051	24,543,193
PPP loan	-	1,963,726
Long-term lease liability	888,108	512,058
Total long-term debt	92,576,439	93,494,023
CURRENT LIABILITIES		
Accounts payable	2,479,450	2,197,109
Customer deposits	51,606	72,900
Accrued liabilities	2,170,554	1,531,635
Current maturities of PPP loan	-	347,375
Line of credit	2,300,000	2,892,582
Current maturities of long-term debt and leases	3,172,148	2,223,226
Total current liabilities	10,173,758	9,264,827
DEFERRED CREDITS	353,885	363,606
Total equities, margins, and liabilities	$ 145,234,474	$ 141,463,380

Orcas Power & Light Cooperative and Subsidiary
Consolidated Statements of Revenues and Margins

	Years Ended December 31, 2021	2020
OPERATING REVENUES		
Electricity sales	$ 33,455,938	$ 31,785,990
Broadband sales	7,703,247	6,671,255
Total operating revenues	41,159,185	38,457,245
OPERATING EXPENSES		
Cost of purchased power	9,934,871	9,512,760
Transmission	402,069	388,576
Distribution - operations	3,625,309	3,570,350
Distribution - maintenance	2,564,054	2,825,081
Consumer accounts	1,093,181	1,093,791
Broadband services	904,237	781,668
Administrative and general	8,742,975	8,499,896
Depreciation and amortization	6,926,169	6,594,093
Taxes	1,746,706	1,748,707
Total operating expenses	35,939,571	35,014,922
Operating margins before fixed charges	5,219,614	3,442,323
FIXED CHARGES		
Interest on long-term debt	2,967,795	2,926,503
Operating margins after fixed charges	2,251,819	515,820
PATRONAGE CAPITAL CREDITS	135,327	122,952
Net operating margins	2,387,146	638,772
NONOPERATING MARGINS		
Interest income	69,515	89,550
PPP loan forgiveness	2,311,101	-
Other income	140,653	265,703
Total nonoperating margins	2,521,269	355,253
NET MARGINS	$ 4,908,415	$ 994,025

See accompanying notes.

Orcas Power & Light Cooperative and Subsidiary
Consolidated Statements of Changes in Patronage Capital and Other Equities

	Memberships	Patronage Capital	Donated and Other Equities	Undistributed Subsidiary Equities	Total
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	57,595	43,510,712	7,570,208	(12,797,591)	38,340,924
Increase in memberships, net	630	-	-	-	630
Net margins (losses)	-	3,282,074	2,057,772	(431,431)	4,908,415
Donated and returned capital	-	-	387,099	-	387,099
Retirement of capital credits, net	-	(1,506,676)	-	-	(1,506,676)
BALANCE, December 31, 2021	$ 58,225	$ 45,286,110	$ 10,015,079	$ (13,229,022)	$ 42,130,392

Orcas Power & Light Cooperative and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended December 31, 2021	Years Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	$ 4,908,415	$ 994,025
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	6,926,169	6,594,093
PPP loan forgiveness	(2,311,101)	-
Changes in assets and liabilities		
Accounts receivable	(1,246,221)	(458,144)
Prepaid expenses	(75,689)	(103,147)
Goodwill	31,074	31,074
Deferred charges	(408,287)	(463,487)
Accounts payable	282,341	139,514
Customer deposits	(21,294)	(12,359)
Accrued liabilities	638,919	513,477
Deferred credits	(9,721)	52,873
Net cash from operating activities	8,714,605	7,287,919
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(10,819,680)	(11,236,636)
Change in interest receivable	(560)	18,039
Change in materials and supplies	(628,822)	(1,117,382)
Change in investments in associated organizations	(1,086,440)	(51,518)
Net cash used for investing activities	(12,535,502)	(12,387,497)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(2,430,472)	(3,714,742)
Proceeds from debt	4,425,536	14,545,901
Payments on line of credit	(592,582)	(412,418)
Proceeds from PPP loan	-	2,311,101
Cash contributions in aid of construction	1,724,889	1,764,326
Memberships, net	630	1,240
Retirements of patronage capital credits, net of donated and returned capital	(1,119,577)	(1,057,182)
Net cash from financing activities	2,008,424	13,438,226
NET CHANGE IN CASH	(1,812,473)	8,338,648
CASH AND CASH EQUIVALENTS, beginning of year	13,037,675	4,699,027
CASH AND CASH EQUIVALENTS, end of year	$ 11,225,202	$ 13,037,675
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 2,628,962	$ 2,980,942
Assets acquired through capital lease	$ 825,536	$ 313,773

See accompanying notes.

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 11,645 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, 2021 and 2020.

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%.

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, 2021 and 2020.

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 $3,081,838 and $6,376,648 in 2021 and 2020, 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 $348,403 and $312,641 are included in accrued liabilities as of December 31, 2021 and 2020, respectively.

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, 2021 and 2020, the Board of Directors approved patronage retirements of $1,506,676 and $1,615,889, respectively, 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.

OPALCO estimates and records unbilled revenue from electric power delivered, but not yet billed, for services provided from the last billing cycle to the end of the year. At December 31, 2021 and 2020, unbilled revenue of $2,862,891 and $1,318,781, 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. As of December 31, 2021 and 2020, unearned revenue of $484,477 and $452,289, 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.

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, 2021 and 2020, 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.

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 12, 2022, 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:

	2021	2020
Petty cash funds	$ 717	$ 1,130
Cash in FDIC institutions	8,982,512	6,995,151
Cash in CoBank	2,241,973	6,041,394
	$ 11,225,202	$ 13,037,675

Note 3 – Plant in Service

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

	2021	2020
Generation	$ 559	$ 559
Transmission	34,330,987	34,301,350
Distribution	91,143,889	85,089,997
General plant	29,734,827	28,035,072
Broadband plant	25,977,570	21,540,507
Intangible plant	1,539,562	1,539,562
Total plant in service	$ 182,727,394	$ 170,507,047

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 $1,724,889 and $1,764,326 were recorded during 2021 and 2020, respectively.

Note 4 – Investments in Associated Organizations

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

	2021	2020
Capital term certificates of National Rural Utilities Cooperative Finance Corporation (CFC), interest from 3% to 5%, with maturities from 2020 through 2080	$ 536,474	$ 536,474
Capital term certificate from Pacific Northwest Generating Cooperative, interest at 0%, redeemed March 2021	-	502,560
Select Note Investments in CFC bearing interest between .35%-.45% with maturities in May and June of 2022	1,500,000	-
Patronage capital credits in CFC	294,774	292,682
Patronage capital credits in National Information Solutions Cooperative (NISC)	122,298	113,421
Patronage capital in Federated Rural Electric Insurance Exchange	259,364	240,404
Patronage capital credits in Pacific Northwest Generating Cooperative	223,358	165,533
Patronage capital - others	16,683	15,437
Total investments in associated organizations	$ 2,952,951	$ 1,866,511

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.

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, 2021, OPALCO's investment in subsidiary of $(11,093,287) represents the intercompany loan of $2,135,734 less undistributed subsidiary losses of $13,229,022. The liability and associated investment are eliminated upon consolidation.

During 2021 and 2020, OPALCO incurred $79,516 and $79,471, respectively, in interest income associated with advances taken by Rock Island Communications. This income has been eliminated upon consolidation.

During 2021 and 2020, OPALCO incurred $333,212 and $306,312, 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 $143,422 and $139,445, for 2021 and 2020, respectively, and billed for use of OPALCO’s communication infrastructure in the amount of $109,740 and $89,976 in 2021 and 2020. 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, 2021 and 2020.

In January 2011, the Cooperative established an unsecured 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 2022; no loan advances have been made on this account in 2021 or 2020.

In November 2020, Island Network, LLC executed an amendment to its existing revolving credit promissory note with CoBank increasing the total aggregate principal commitment from $3,500,000 to $4,000,000. Draws on the revolving credit promissory note are at variable interest rates measured at the time of advance. The loan term expires in September 2022 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 $2,300,000 with an interest rate of 2.41% as of December 31, 2021, and $2,892,582 as of December 31, 2020.

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:

	2021	2020
Mortgages payable to RUS, quarterly installments of approximately $440,000, including interest at rates ranging from 1.43% to 5.82%, maturing over various periods through December 2052.	$ 58,091,619	$ 59,350,726
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.	7,747,858	8,029,709
RUS Rural Energy Savings Program (RESP) loan, payable in monthly installments of approximately $4,200 bearing 0% interest, maturing October 2031.	1,235,361	685,782
CoBank loan, payable in monthly interest only installments of approximately $136,000. Interest rates ranging from 3.32% to 4.61%. Maturing over various periods through 2046.	27,483,564	25,002,128
Long-term debt	94,558,402	93,068,345
Capital lease obligations, stated at present value of future minimum lease payments	1,190,185	685,178
	95,748,587	93,753,523
Less current maturities of long-term debt and capital lease obligations	3,172,148	2,223,226
	$ 92,576,439	$ 91,530,297

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

2022	$ 3,172,148
2023	3,470,254
2024	4,154,507
2025	3,897,198
2026	3,859,460
Thereafter	77,195,020
	$ 95,748,587

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, 2021:

Originated	Entity	Type	Amount	Interest Rate	Maturity Date
2019	OPALCO	Computer equipment	$ 1,505	0.00%	January 2022
2019	Island Network	Computer Equipment	$ 2,365	2.11%	January 2022
2019	Island Network	Computer Equipment	$ 1,086	2.11%	February 2022
2021	Island Network	Computer Equipment	$ 134,377	1.36%	March 2024
2021	Island Network	Vehicles	$ 151,677	3.10%	March 2028
2021	Island Network	Computer Equipment	$ 375,189	2.19%	November 2025
2019	Island Network	Vehicles	$ 53,823	4.60%	March 2025
2020	Island Network	Computer Equipment	$ 239,493	1.25%	September 2025
2019	Island Network	Vehicles	$ 30,248	5.25%	October 2025
2017	Island Network	Vehicles	$ 200,422	4.30%	January 2026

Note 8 – Operating Lease Commitments

Operating leases – Island Network, LLC leases office space under a five-year noncancelable operating lease expiring in December 2024.

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

2022	$ 86,832
2023	80,832
2024	80,832
	$ 248,496

Rent expense under the operating lease for the years ended December 31, 2021 and 2020, was $147,902 and $147,902.

Subsequent to year end, Island Network, LLC renewed an operating lease agreement calling for monthly payments of $6,000 and expiring in January 2027.

Note 9 – Paycheck Protection Program

In April 2020, 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). 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). The Corporative believes that it has acted in compliance with the program and received full forgiveness of the PPP loans in 2021.

Note 10 – Income Taxes

The components of the provision for income tax benefit (expense) are as follows as of December 31, 2021:

	2021	2020
Deferred income tax benefit (expense)		
Federal	$ 302,969	$ 284,093
Change in valuation allowance	(302,969)	(284,093)
Total income tax expense	$ -	$ -

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:

	2021	2020
Deferred tax assets		
Net operating loss carryforward	$ 3,477,697	$ 3,258,285
Allowance for bad debts	1,762	1,489
Capitalized organizational costs	8,960	8,960
Contribution timing differences	3,411	2,603
Accrued liabilities	10,700	4,799
	3,502,530	3,276,136
Less valuation allowance	(2,943,589)	(2,640,620)
Total deferred tax assets	558,941	635,516
Deferred tax liabilities		
Tax depreciation greater than book	(525,544)	(609,971)
Tax amortization greater than book	(4,132)	(3,534)
Change in prepaid insurance	(29,265)	(22,011)
Total deferred tax liabilities	(558,941)	(635,516)
Net deferred income tax asset (liability)	$ -	$ -

Island Network, LLC has federal net operating loss carryforwards of $16,561,000, 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.

Note 11 – Deferred Credits

As of December 31, 2021 and 2020, amounts carried on the Cooperative's consolidated balance sheets as deferred credits consisted primarily of Project PAL funds of $32,620 and $31,021, respectively; the Member Owned Renewable Energy (MORE) Program funds of $97,145 and $112,123, respectively; and the Energy Assist Program for $105,468 and $112,843 for 2021 and 2020, 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 $29,684 and $74,462 at December 31, 2021 and 2020, 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.

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 2021 and 2020 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 94.05% and 93.13% funded as of January 1, 2021 and 2020, 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 2.59%. The defined benefit plan used an assumed 15.08% 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 2021 and in 2020 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 $1,691,546 and $1,628,259 for the years ended December 31, 2021 and 2020, 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 $333,441 and $258,128 for the years ended December 31, 2021 and 2020, respectively.

Postemployment benefits – The Cooperative allows employees to remain in its medical plan after retirement, the employee is required to pay the full group medical rate. Therefore, the Cooperative does not recognize a liability for such benefits.

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, 2021, the Cooperative employed approximately 72% 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 consolidated 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:

	2021	2020
OPALCO		
Residential electric	$ 23,986,676	$ 23,923,145
Commercial electric, public lighting, and other	9,469,262	7,862,845
Total	33,455,938	31,785,990
Island Network, LLC		
Broadband services	6,518,005	5,765,344
IT services	525,064	408,321
Other revenues	660,178	497,590
Total	7,703,247	6,671,255
	$ 41,159,185	$ 38,457,245

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.

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.

Note 15 – Subsequent Events

In February 2022, OPALCO made a long-term advance draw with the RUS in the amount of $3,600,000 at an interest rate of 2.07%.

Supplementary Information

Orcas Power & Light Cooperative
Consolidating Balance Sheet
December 31, 2021

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
ASSETS				
Electric plant in service	$ 156,749,824	$ -	$ -	$ 156,749,824
Broadband plant in service	-	25,977,570	-	25,977,570
Construction work in progress	4,342,145	181,868	-	4,524,013
	161,091,969	26,159,438	-	187,251,407
Less accumulated depreciation and amortization	62,700,104	7,461,291	-	70,161,395
Net utility plant	98,391,865	18,698,147	-	117,090,012
INVESTMENTS AND OTHER ASSETS				
Investments in associated organizations	2,952,951	-	-	2,952,951
Investment in subsidiary (Note 5)	(11,093,287)	-	11,093,287	-
Goodwill	-	95,812	-	95,812
Total investments and other assets	(8,140,336)	95,812	11,093,287	3,048,763
CURRENT ASSETS				
Cash and cash equivalents	8,009,143	134,221	-	8,143,364
Cash and cash equivalents - board designated	3,081,838	-	-	3,081,838
Accounts receivable, net of allowance for doubtful accounts of $68,391 in 2021	5,561,141	295,514	(31,092)	5,825,563
Interest receivable	6,800	-	-	6,800
Materials and supplies	4,122,049	1,654,153	-	5,776,202
Prepaid expenses	490,686	252,397	-	743,083
Total current assets	21,271,657	2,336,285	(31,092)	23,576,850
DEFERRED CHARGES	1,518,849	-	-	1,518,849
TOTAL ASSETS	$ 113,042,035	$ 21,130,244	$ 11,062,195	$ 145,234,474
EQUITIES AND MARGINS				
Memberships	$ 58,225	$ -	$ -	$ 58,225
Patronage capital	45,286,110	-	-	45,286,110
Undistributed subsidiary losses	(13,229,022)	(13,229,022)	13,229,022	(13,229,022)
Donated and other equities	10,015,079	-	-	10,015,079
Total equity and margins	42,130,392	(13,229,022)	13,229,022	42,130,392
LONG-TERM DEBT, less current maturities				
RUS mortgage notes	56,342,663	-	-	56,342,663
CFC mortgage notes	7,454,617	-	-	7,454,617
Loan payable	1,184,941	26,706,110	-	27,891,051
PPP loan	-	-	-	-
Payable to OPALCO (Note 5)	-	2,135,734	(2,135,734)	-
Long-term lease liability	-	888,108	-	888,108
Total long-term debt	64,982,221	29,729,952	(2,135,734)	92,576,439
CURRENT LIABILITIES				
Accounts payable	2,011,153	499,390	(31,093)	2,479,450
Customer deposits	51,606	-	-	51,606
Accrued liabilities	1,418,656	751,898	-	2,170,554
Current maturities of PPP loan	-	-	-	-
Line of credit	-	2,300,000	-	2,300,000
Current maturities of long-term debt and leases	2,094,122	1,078,026	-	3,172,148
Total current liabilities	5,575,537	4,629,314	(31,093)	10,173,758
DEFERRED CREDITS	353,885	-	-	353,885
EQUITIES, MARGINS, AND LIABILITIES	$ 113,042,035	$ 21,130,244	$ 11,062,195	$ 145,234,474

See report of independent auditors.

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	$ 110,992,570	$ 19,825,866	$ 10,644,944	$ 141,463,380
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	$ 110,992,570	$ 19,825,866	$ 10,644,944	$ 141,463,380

Orcas Power & Light Cooperative
Consolidating Statement of Revenues and Margins
Year Ended December 31, 2021

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
OPERATING REVENUES				
Electricity sales	$ 33,599,360	$ -	$ (143,422)	$ 33,455,938
Broadband sales	-	8,036,459	(333,212)	7,703,247
Total operating revenues	33,599,360	8,036,459	(476,634)	41,159,185
OPERATING EXPENSES				
Cost of purchased power	9,934,871	-	-	9,934,871
Transmission	402,069	-	-	402,069
Distribution - operations	3,625,309	-	-	3,625,309
Distribution - maintenance	2,564,054	-	-	2,564,054
Consumer accounts	1,093,181	-	-	1,093,181
Broadband services	-	1,157,399	(253,162)	904,237
Administrative and general	4,349,992	4,726,195	(333,212)	8,742,975
Depreciation and amortization	5,047,791	1,878,378	-	6,926,169
Taxes	1,502,418	244,288	-	1,746,706
Total operating expenses	28,519,685	8,006,260	(586,374)	35,939,571
Operating margins before fixed charges	5,079,675	30,199	109,740	5,219,614
FIXED CHARGES				
Interest on long-term debt	1,932,928	1,114,383	(79,516)	2,967,795
Operating margins after fixed charges	3,146,747	(1,084,184)	189,256	2,251,819
PATRONAGE CAPITAL CREDITS	135,327	-	-	135,327
Net operating margins	3,282,074	(1,084,184)	189,256	2,387,146
NONOPERATING MARGINS				
Interest income	149,031	-	(79,516)	69,515
PPP loan forgiveness	1,790,016	521,085	-	2,311,101
Other income	118,725	131,668	(109,740)	140,653
Total nonoperating margins	2,057,772	652,753	(189,256)	2,521,269
Net operating and nonoperating margins	5,339,846	(431,431)	-	4,908,415
LOSS FROM SUBSIDIARY	(431,431)	-	431,431	-
NET MARGINS	$ 4,908,415	$ (431,431)	$ 431,431	$ 4,908,415

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

Report Required by *Government Auditing Standards*

MOSSADAMS

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
Orcas Power & Light Cooperative and Subsidiary

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, the consolidated financial statements of Orcas Power & Light Cooperative and its Subsidiary (collectively, the Cooperative), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of revenues and margins, consolidated statements of changes in patronage capital and other equities, and consolidated statements of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2022.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cooperative's consolidated 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Moss Adams LLP

Everett, Washington
May 12, 2022

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