



Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary Information

Orcas Power & Light Cooperative and Subsidiary

December 31, 2023 and 2022

Table of Contents

	Page
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheets	5
Consolidated Statements of Revenues and Margins	7
Consolidated Statements of Changes in Patronage Capital and Other Equities	8
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	10
Supplementary Information	
Consolidating Balance Sheet – December 31, 2023	28
Consolidating Balance Sheet – December 31, 2022	29
Consolidating Statement of Revenues and Margins – Year Ended December 31, 2023	30
Consolidating Statement of Revenues and Margins – Year Ended December 31, 2022	31
Report Required by <i>Government Auditing Standards</i>	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33

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, 2023 and 2022, 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 financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated balance sheets of the Cooperative as of December 31, 2023 and 2022, and the changes in their net margins, patronage capital and other equities, and 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 the Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 the Cooperative's ability to continue as a going concern for one year after the date that the 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 consolidated 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 consolidated 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 consolidated 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 the 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets as of December 31, 2023 and 2022, 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 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 7, 2024, 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 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 the 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 the Cooperative's internal control over financial reporting and compliance.

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

Everett, Washington
May 7, 2024

Consolidated Financial Statements

Orcas Power & Light Cooperative and Subsidiary
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
ASSETS		
UTILITY PLANT, at cost		
Electric plant in service	\$ 168,725,154	\$ 159,009,291
Broadband plant in service	27,069,087	25,718,796
Construction work in progress	11,665,046	9,975,300
Right-of-use asset	3,075,904	2,764,955
	210,535,191	197,468,342
Less accumulated depreciation and amortization	83,098,540	76,359,843
Net utility plant	127,436,651	121,108,499
INVESTMENTS AND OTHER ASSETS		
Investments in associated organizations	1,826,360	1,693,528
Goodwill	33,664	64,738
Total investments and other assets	1,860,024	1,758,266
CURRENT ASSETS		
Cash and cash equivalents	9,263,750	9,891,181
Cash and cash equivalents - board designated	1,061,098	1,002,529
Accounts receivable, net of allowance for credit losses of \$272,744 and \$164,907 in 2023 and 2022	8,738,093	6,399,877
Interest receivable	49,108	55,550
Materials and supplies	6,240,506	5,527,113
Prepaid expenses	897,766	870,129
Total current assets	26,250,321	23,746,379
DEFERRED CHARGES	9,440,198	4,501,196
Total assets	\$ 164,987,194	\$ 151,114,340

See accompanying notes.

Orcas Power & Light Cooperative and Subsidiary
Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
EQUITIES, MARGINS, AND LIABILITIES		
EQUITIES AND MARGINS		
Memberships	\$ 58,555	\$ 58,380
Patronage capital	50,530,220	47,245,721
Undistributed subsidiary losses	(11,466,670)	(13,311,621)
Donated and other equities	12,188,062	10,997,394
	51,310,167	44,989,874
LONG-TERM DEBT AND LIABILITIES, less current maturities		
RUS mortgage notes	65,195,745	58,119,090
CFC mortgage notes	6,832,012	7,149,506
Loan payable	25,583,223	27,871,374
Operating lease liability, net of current portion	296,014	608,819
Finance lease liability, net of current portion	491,098	653,350
	98,398,092	94,402,139
CURRENT LIABILITIES		
Accounts payable	3,749,430	2,297,585
Customer deposits	71,371	70,129
Accrued liabilities	1,934,503	2,197,714
Line of credit	4,095,000	3,500,000
Current portion of operating lease liability	312,806	302,735
Current portion of finance lease liability	383,262	335,316
Current maturities of long-term debt	4,351,407	2,720,142
	14,897,779	11,423,621
DEFERRED CREDITS		
	381,156	298,706
	\$ 164,987,194	\$ 151,114,340

See accompanying notes.

Orcas Power & Light Cooperative and Subsidiary
Consolidated Statements of Revenues and Margins
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Electricity sales	\$ 36,325,605	\$ 35,523,885
Broadband sales	<u>10,475,413</u>	<u>9,010,666</u>
Total operating revenues	<u>46,801,018</u>	<u>44,534,551</u>
OPERATING EXPENSES		
Cost of purchased power	8,571,913	9,756,442
Transmission	1,348,268	730,538
Distribution - operations	3,796,463	3,900,840
Distribution - maintenance	3,214,269	3,107,333
Consumer accounts	1,085,072	1,113,268
Broadband services	1,128,708	988,873
Administrative and general	9,448,670	9,015,548
Depreciation and amortization	7,208,743	7,170,991
Operating lease expense	316,935	309,261
Taxes	<u>1,926,691</u>	<u>1,930,830</u>
Total operating expenses	<u>38,045,732</u>	<u>38,023,924</u>
Operating margins before fixed charges	8,755,286	6,510,627
FIXED CHARGES		
Interest on long-term debt	<u>3,244,377</u>	<u>3,110,421</u>
Operating margins after fixed charges	5,510,909	3,400,206
PATRONAGE CAPITAL CREDITS	<u>107,198</u>	<u>130,840</u>
Net operating margins	<u>5,618,107</u>	<u>3,531,046</u>
NONOPERATING MARGINS		
Interest income	607,039	260,917
Other income	<u>1,245,375</u>	<u>113,254</u>
Total nonoperating margins	<u>1,852,414</u>	<u>374,171</u>
NET MARGINS	<u>\$ 7,470,521</u>	<u>\$ 3,905,217</u>

See accompanying notes.

Orcas Power & Light Cooperative and Subsidiary
Consolidated Statements of Changes in Patronage Capital and Other Equities
Years Ended December 31, 2023 and 2022

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Donated and Other Equities</u>	<u>Undistributed Subsidiary Equities</u>	<u>Total</u>
BALANCE, December 31, 2021	\$ 58,225	\$ 45,286,110	\$ 10,015,079	\$ (13,229,022)	\$ 42,130,392
Increase in memberships, net	155	-	-	-	155
Net margins (losses)	-	3,548,874	438,942	(82,599)	3,905,217
Donated and returned capital	-	-	543,373	-	543,373
Retirement of capital credits, net	-	(1,589,263)	-	-	(1,589,263)
BALANCE, December 31, 2022	58,380	47,245,721	10,997,394	(13,311,621)	44,989,874
Increase in memberships, net	175	-	-	-	175
Net margins	-	4,848,065	777,505	1,844,951	7,470,521
Donated and returned capital	-	-	413,163	-	413,163
Retirement of capital credits, net	-	(1,563,566)	-	-	(1,563,566)
BALANCE, December 31, 2023	<u>\$ 58,555</u>	<u>\$ 50,530,220</u>	<u>\$ 12,188,062</u>	<u>\$ (11,466,670)</u>	<u>\$ 51,310,167</u>

See accompanying notes.

Orcas Power & Light Cooperative and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 7,470,521	\$ 3,905,217
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	7,208,743	7,170,991
Changes in assets and liabilities		
Accounts receivable	(2,338,216)	(574,314)
Prepaid expenses	(27,637)	(232,458)
Deferred charges	(4,939,002)	(2,982,347)
Accounts payable	1,451,845	(181,865)
Customer deposits	1,242	18,523
Accrued liabilities and operating lease liability	(565,945)	27,160
Deferred credits	82,450	(55,179)
	<u>8,344,001</u>	<u>7,095,728</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(17,082,836)	(12,592,049)
Change in interest receivable	6,442	(48,750)
Change in materials and supplies	(713,393)	249,089
Change in investments in associated organizations	(132,832)	1,364,835
	<u>(17,922,619)</u>	<u>(11,026,875)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(3,601,796)	(3,052,535)
Payments on finance lease liability	(398,457)	(317,819)
Proceeds from debt	9,988,222	4,744,048
Payments on line of credit	(450,000)	-
Proceeds on line of credit	1,045,000	1,200,000
Cash contributions in aid of construction	3,577,015	2,071,696
Memberships, net	175	155
Retirements of patronage capital credits, net of donated and returned capital	(1,150,403)	(1,045,890)
	<u>9,009,756</u>	<u>3,599,655</u>
NET CHANGE IN CASH	(568,862)	(331,492)
CASH AND CASH EQUIVALENTS, beginning of year	<u>10,893,710</u>	<u>11,225,202</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 10,324,848</u>	<u>\$ 10,893,710</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 3,116,261	\$ 3,174,946
Right-of-use lease assets obtained in exchange for lease liabilities	\$ 284,599	\$ 2,502,997

See accompanying notes.

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 11,711 memberships, including 13,874 residential meters and 1,973 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, 2023 and 2022.

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

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%

Leases – On January 1, 2022, the Cooperative adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 842, *Leases* (Topic 842) using the modified retrospective transition method of adoption. As such, the Cooperative will assess all new leases in accordance with Topic 842.

Under Topic 842, Island Network, LLC is a lessee for non-cancelable operating and finance leases for fleet vehicles, networking equipment, office facilities, and network infrastructure. An arrangement is determined whether it contains a lease at inception. Operating and finance leases will be recognized on the balance sheets as right-of-use (ROU) assets and lease liabilities. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represents the obligation to make lease payments arising from the lease. Lease liabilities and their corresponding ROU assets are recorded based on the present value of lease payments over the expected remaining lease terms. For this purpose, Island Network, LLC considers only payments that are fixed and determinable at the time of commencement. The lease ROU asset also included any lease payments made and adjustments for prepayments and lease incentives.

Policies were elected to combine lease and nonlease components for fleet vehicles, networking equipment, and office facilities, as well as to use a risk-free rate in lieu of its incremental borrowing rate, and to exclude short-term leases from ASC 842 requirements as permitted.

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, 2023 and 2022.

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 \$1,061,098 and \$1,002,529 in 2023 and 2022, respectively.

Accounts receivable – Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. The Cooperative provides an allowance for credit loss to estimate losses from uncollectible accounts. An allowance is recorded based upon historical experience and management's evaluation of, among other factors, current and reasonably supportable expected future economic conditions and customer's ability to pay.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

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 and 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 30 days per year. Employees are compensated for unused vacation pay upon separation from employment. Compensated absences in the amount of \$429,375 and \$385,997 are included in accrued liabilities as of December 31, 2023 and 2022, respectively.

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, 2023 and 2022, the Board of Directors approved patronage retirements of \$1,563,566 and \$1,589,263, 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, 2023 and 2022, unbilled revenue of \$1,860,154 and \$2,132,186, respectively, was included in the accounts receivable balance.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

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, 2023 and 2022, unearned revenue of \$336,265 and \$337,341, 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.

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, 2023 and 2022, 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.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

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.

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

Reclassifications – Certain prior period amounts have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the Cooperative's 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 7, 2024, 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:

	<u>2023</u>	<u>2022</u>
Petty cash funds	\$ 1,144	\$ 1,144
Cash in FDIC institutions	10,323,704	10,745,274
Cash in CoBank	-	147,292
	<u>\$ 10,324,848</u>	<u>\$ 10,893,710</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:

	2023	2022
Generation	\$ 559	\$ 559
Transmission	34,938,931	34,355,358
Distribution	99,902,834	92,712,490
General plant	32,343,268	30,401,322
Broadband plant	27,069,087	25,718,796
Intangible plant	1,539,562	1,539,562
Total plant in service	\$ 195,794,241	\$ 184,728,087

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 \$3,577,015 and \$2,071,696 were recorded during 2023 and 2022, respectively.

Note 4 – Investments in Associated Organizations

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

	2023	2022
Capital term certificates of National Rural Utilities Cooperative Finance Corporation (CFC), interest from 3% to 5%, with maturities from 2025 through 2080	\$ 536,474	\$ 536,474
Patronage capital credits in CFC	296,285	295,228
Patronage capital credits in National Information Solutions Cooperative (NISC)	124,750	119,908
Patronage capital in Federated Rural Electric Insurance Exchange	299,968	288,254
Patronage capital credits in Pacific Northwest Generating Cooperative	342,722	283,694
Patronage capital credits in CoBank Financial Services Company	209,989	153,998
Patronage capital - others	16,172	15,972
Total investments in associated organizations	\$ 1,826,360	\$ 1,693,528

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. The intercompany loan bears interest at 4.01% as of December 2023 and 2022, with an indefinite term. On December 31, 2023, OPALCO's investment in subsidiary of \$9,331,007 represents the intercompany loan of \$2,135,663 less undistributed subsidiary losses of \$11,466,670. The liability and associated investment are eliminated upon consolidation.

During 2023 and 2022, OPALCO incurred \$79,587 and \$79,572, respectively, in interest income associated with advances taken by Rock Island Communications. This income has been eliminated upon consolidation.

During 2023 and 2022, OPALCO incurred \$442,359 and \$392,061, 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 \$182,123 and \$155,739, for 2023 and 2022, respectively, and billed for use of OPALCO's communication infrastructure in the amount of \$109,740 in 2023 and 2022. 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, 2023 and 2022.

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 2024; no loan advances have been made on this account in 2023 or 2022.

In September 2023, Island Network, LLC executed an amendment to its existing revolving credit promissory note with CoBank reducing the total aggregate principal from \$5,940,000 to \$4,840,000, by taking \$1,100,000 single advance term promissory note. Draws on the revolving credit promissory note are at variable interest rates measured at the time of advance. The loan term expires in September 2024 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 \$4,095,000 with an interest rate of 7.41% as of December 31, 2023, and \$3,500,000 with an interest rate of 6.35% as of December 31, 2022.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 7 – Long-Term Debt and 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. Management believes the Cooperative was in compliance with covenants as of December 31, 2023. Long-term debt consisted of the following at December 31:

	2023	2022
Mortgages payable to RUS, quarterly installments of approximately \$493,000, including interest at rates ranging from 1.43% to 5.82%, maturing over various periods through December 2052.	\$ 57,950,388	\$ 59,503,057
Mortgages payable to CFC, quarterly installments of approximately \$86,000, including interest at rates ranging from 3.55% to 4.7%, maturing over various periods through 2039.	7,149,508	7,454,617
RUS Rural Energy Savings Program (RESP) loan, payable in monthly installments of approximately \$72,000, bearing 0% interest, maturing December 2033.	10,005,513	2,224,941
CoBank loan, payable in monthly interest only installments of approximately \$136,000. Interest rates ranging from 3.32% to 6.41%. Maturing over various periods through 2046.	26,856,978	26,677,498
Long-term debt	101,962,387	95,860,113
Finance lease obligations, stated at present value of future minimum lease payments	874,360	988,666
	102,836,747	96,848,779
Less current maturities of long-term debt and finance lease obligations	4,734,669	3,055,458
	\$ 98,102,078	\$ 93,793,321

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

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

2024	\$ 4,734,669
2025	5,031,652
2026	4,856,070
2027	4,443,295
2028	5,027,104
Thereafter	<u>78,743,957</u>
	<u><u>\$ 102,836,747</u></u>

Note 8 – Lease Commitments

Island Network, LLC, has operating and finance leases for its fleet vehicles, networking equipment, office facilities, and network infrastructure that generally extend through 2030. Fleet vehicles and networking equipment leases extend through 2029 with a purchase option at the end. Office facilities leases extend through 2027 with renewal options to extend five years. Network infrastructure leases generally extend through 2025 with several renewal options to extend one to five years.

The following tables set forth supplemental balance sheet information related to leases as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Finance leases		
ROU asset	\$ 1,874,638	\$ 1,415,017
Accumulated amortization	<u>(862,106)</u>	<u>(345,959)</u>
ROU asset, net	<u>\$ 1,012,532</u>	<u>\$ 1,069,058</u>
Current portion of long-term debt	\$ 383,262	\$ 335,316
Long-term debt	<u>491,098</u>	<u>653,350</u>
Total finance lease liability	<u>\$ 874,360</u>	<u>\$ 988,666</u>
Operating leases		
Operating lease right-of-use assets, net	<u>\$ 598,284</u>	<u>\$ 904,551</u>
Current portion of operating lease liability	\$ 312,806	\$ 302,735
Long-term operating lease liability	<u>296,014</u>	<u>608,819</u>
Total operating lease liability	<u>\$ 608,820</u>	<u>\$ 911,554</u>

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

A summary of lease costs and related information for the years ended December 31, 2023 and 2022:

	2023	2022
Lease expense		
Finance lease expense		
Amortization of ROU assets	\$ 367,476	\$ 308,492
Interest on lease liabilities	28,598	26,722
Operating lease expense	316,935	309,261
Short-term or variable lease expense	6,106	-
	\$ 719,115	\$ 644,475

	2023	2022
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases (i.e., interest)	\$ 29,046	\$ 24,694
Financing cash flows from finance leases (i.e., principal portion)	\$ 398,457	\$ 317,819
Operating cash flows from operating leases	\$ 313,404	\$ 299,532
ROU assets obtained in exchange for new finance lease liabilities	\$ 284,599	\$ 1,304,456
ROU assets obtained in exchange for new operating lease liabilities	\$ -	\$ 1,198,541
Weighted-average remaining lease term in years for finance leases	2.61	3.39
Weighted-average remaining lease term in years for operating leases	2.88	3.54
Weighted-average discount rate for finance leases	3.07%	2.55%
Weighted-average discount rate for operating leases	1.50%	1.41%

Future minimum lease payments at December 31, 2023, were as follows:

	Finance	Operating
2024	\$ 404,117	\$ 319,777
2025	359,042	147,480
2026	74,819	87,201
2027	51,673	21,657
2028	16,817	16,127
Thereafter	3,710	33,721
	910,178	625,963
Total undiscounted cash flows		
Less present value discount	(35,818)	(17,143)
	\$ 874,360	\$ 608,820

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 9 – Income Taxes

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

	2023	2022
Deferred income tax benefit (expense)		
Federal	\$ (349,958)	\$ 112,428
Change in valuation allowance	349,958	(112,428)
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:

	2023	2022
Deferred tax assets		
Net operating loss carryforward	\$ 2,722,989	\$ 3,514,025
Allowance for bad debts	434	826
Capitalized organizational costs	8,960	8,960
Contribution timing differences	-	7,736
Right-of-use liability	127,852	-
Accrued liabilities	3,624	4,490
	2,863,859	3,536,037
Less valuation allowance	(2,481,203)	(2,831,161)
Total deferred tax assets	382,656	704,876
Deferred tax liabilities		
Tax depreciation greater than book	(206,393)	(657,100)
Tax amortization greater than book	(21,901)	(21,528)
Right-of-use asset	(125,640)	-
Change in prepaid insurance	(28,722)	(26,248)
Total deferred tax liabilities	(382,656)	(704,876)
Net deferred income tax asset (liability)	\$ -	\$ -

Island Network, LLC, has federal net operating loss carryforwards of approximately \$13,000,000, which begin to expire in 2036.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 10 – Deferred Credits

As of December 31, 2023 and 2022, amounts carried on the Cooperative’s consolidated balance sheets as deferred credits consisted of the following:

	2023	2022
Energy Assist Program	\$ 189,547	\$ 134,854
Project PAL	124,937	127,911
Low Income Solar Program	40,850	8,398
Deferred Revenue	25,822	27,543
Total deferred credits	\$ 381,156	\$ 298,706

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.

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 bill to the next whole dollar. Requests for assistance are evaluated and grants are awarded by three independent San Juan County Community Resource Centers.

In 2022, the Cooperative established Low-income Solar Program fund to provide low-income members access to solar benefits. The fund allows members to donate in support of local solar production through community solar projects. Donors of the discontinued MORE Program were invited to continue their monthly donations (purchasing blocks of renewable power) which now provides access to solar benefits for low-income Co-Op members.

Deferred revenue collected for 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.

Note 11 – 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

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 2023 and 2022 contributions.

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by the individual employer. In total, the RS Plan was 85.41% and 100.52% funded as of January 1, 2023 and 2022, 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 for the year beginning January 1, 2023, was 5.04%. The defined benefit plan used an assumed -12.63% 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 2023 and in 2022 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 \$1,741,256 and \$1,670,307 for the years ended December 31, 2023 and 2022, 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 \$22,500. 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 \$461,788 and \$462,922 for the years ended December 31, 2023 and 2022, 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.

Deferred compensation – During 2022, upon Board approval, the Cooperative established a nonqualified deferred compensation plan, a 457(f) plan for certain key employees. Contributions to this plan for the year ended December 31, 2023 and 2022, were \$20,500 and \$12,000, respectively. As of December 31, 2023 and 2022, the employer contribution liability amounted to \$35,257 and \$11,885, respectively, included within accrued liabilities.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

Note 12 – 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, 2023 and 2022, the Cooperative employed approximately 73% and 71%, respectively, 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. During 2023, this agreement was amended to provide monetary value to Island Network, LLC's long-term investment in wireless communication facilities and to allow for continued deployment of wireless communication facilities in the County. A contract settlement of \$1,119,387 was made for the Island Network's historical services with this regard and was recognized as non-operating income in 2023. In addition, operating income for services earned in 2023 were recognized in the amount of \$1,021,040. The terms of the agreement set forth recurring services to T-Mobile commencing January 1, 2024, through December 31, 2026, for T-Mobile's use of Island Network, LLC's 36 poles and facilities services. This amendment supersedes the initial 10 year term to a 15 year term.

Note 13 – Revenue Recognition

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

	2023	2022
OPALCO		
Residential electric	\$ 27,321,332	\$ 26,565,416
Commercial electric, public lighting, and other	9,004,273	8,958,469
Total	36,325,605	35,523,885
Island Network, LLC		
Broadband services	8,122,002	7,569,511
IT services	810,440	646,973
Other revenues	1,542,971	794,182
Total	10,475,413	9,010,666
	\$ 46,801,018	\$ 44,534,551

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

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

IT services

Revenue is generated from subscribers to a variety of 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 14 – Subsequent Events

In February 2024, OPALCO made a long-term advance draw with the RESP in the amount of \$1,900,000, at an interest rate of 0%.

Orcas Power & Light Cooperative and Subsidiary

Notes to Consolidated Financial Statements

In February 2024, OPALCO made a long-term loan advance draw with the RUS in the amount of \$3,000,000, at an interest rate of 4.4%.

In April 2024, OPALCO made a long-term advance draw with RESP in the amount of \$1,900,000 at an interest rate of 0%.

Supplementary Information

Orcas Power & Light Cooperative and Subsidiary
Consolidating Balance Sheet
December 31, 2023

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
ASSETS				
Electric plant in service	\$ 168,725,154	\$ -	\$ -	\$ 168,725,154
Broadband plant in service	-	27,069,087	-	27,069,087
Construction work in progress	11,412,238	252,808	-	11,665,046
Right-of-use asset	-	3,075,904	-	3,075,904
	<u>180,137,392</u>	<u>30,397,799</u>	<u>-</u>	<u>210,535,191</u>
Less accumulated depreciation and amortization	72,429,392	10,669,148	-	83,098,540
Net utility plant	<u>107,708,000</u>	<u>19,728,651</u>	<u>-</u>	<u>127,436,651</u>
INVESTMENTS AND OTHER ASSETS				
Investments in associated organizations	1,616,371	209,989	-	1,826,360
Investment in subsidiary (Note 5)	(9,331,007)	-	9,331,007	-
Goodwill	-	33,664	-	33,664
Total investments and other assets	<u>(7,714,636)</u>	<u>243,653</u>	<u>9,331,007</u>	<u>1,860,024</u>
CURRENT ASSETS				
Cash and cash equivalents	9,076,867	186,883	-	9,263,750
Cash and cash equivalents - board designated	1,061,098	-	-	1,061,098
Accounts receivable, net of allowance for credit losses of \$272,744 in 2023	6,247,535	2,569,688	(79,130)	8,738,093
Interest receivable	49,108	-	-	49,108
Materials and supplies	4,544,853	1,695,653	-	6,240,506
Prepaid expenses	750,805	146,961	-	897,766
Total current assets	<u>21,730,266</u>	<u>4,599,185</u>	<u>(79,130)</u>	<u>26,250,321</u>
DEFERRED CHARGES	<u>9,440,198</u>	<u>-</u>	<u>-</u>	<u>9,440,198</u>
TOTAL ASSETS	<u>\$ 131,163,828</u>	<u>\$ 24,571,489</u>	<u>\$ 9,251,877</u>	<u>\$ 164,987,194</u>
EQUITIES AND MARGINS				
Memberships	\$ 58,555	\$ -	\$ -	\$ 58,555
Patronage capital	50,530,220	-	-	50,530,220
Undistributed subsidiary losses	(11,466,670)	(11,466,670)	11,466,670	(11,466,670)
Donated and other equities	12,188,062	-	-	12,188,062
Total equity and margins	<u>51,310,167</u>	<u>(11,466,670)</u>	<u>11,466,670</u>	<u>51,310,167</u>
LONG-TERM DEBT AND LIABILITIES, less current maturities				
RUS mortgage notes	65,195,745	-	-	65,195,745
CFC mortgage notes	6,832,012	-	-	6,832,012
Loan payable	-	25,583,223	-	25,583,223
Payable to OPALCO (Note 5)	-	2,135,663	(2,135,663)	-
Operating lease liability, net of current portion	-	296,014	-	296,014
Finance lease liability, net of current portion	-	491,098	-	491,098
Total long-term debt	<u>72,027,757</u>	<u>28,505,998</u>	<u>(2,135,663)</u>	<u>98,398,092</u>
CURRENT LIABILITIES				
Accounts payable	3,197,832	630,728	(79,130)	3,749,430
Customer deposits	71,371	-	-	71,371
Accrued liabilities	1,097,893	836,610	-	1,934,503
Line of credit	-	4,095,000	-	4,095,000
Current portion of operating lease liability	-	312,806	-	312,806
Current portion of finance lease liability	-	383,262	-	383,262
Current maturities of long-term debt	3,077,652	1,273,755	-	4,351,407
Total current liabilities	<u>7,444,748</u>	<u>7,532,161</u>	<u>(79,130)</u>	<u>14,897,779</u>
DEFERRED CREDITS	<u>381,156</u>	<u>-</u>	<u>-</u>	<u>381,156</u>
EQUITIES, MARGINS, AND LIABILITIES	<u>\$ 131,163,828</u>	<u>\$ 24,571,489</u>	<u>\$ 9,251,877</u>	<u>\$ 164,987,194</u>

See report of independent auditors.

Orcas Power & Light Cooperative and Subsidiary
Consolidating Balance Sheet
December 31, 2022

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
ASSETS				
Electric plant in service	\$ 159,009,291	\$ -	\$ -	\$ 159,009,291
Broadband plant in service	-	25,718,796	-	25,718,796
Construction work in progress	9,984,056	(8,756)	-	9,975,300
Right-of-use asset	-	2,764,955	-	2,764,955
	<u>168,993,347</u>	<u>28,474,995</u>	<u>-</u>	<u>197,468,342</u>
Less accumulated depreciation and amortization	67,446,380	8,913,463	-	76,359,843
Net utility plant	<u>101,546,967</u>	<u>19,561,532</u>	<u>-</u>	<u>121,108,499</u>
INVESTMENTS AND OTHER ASSETS				
Investments in associated organizations	1,539,530	153,998	-	1,693,528
Investment in subsidiary (Note 5)	(11,173,487)	-	11,173,487	-
Goodwill	-	64,738	-	64,738
Total investments and other assets	<u>(9,633,957)</u>	<u>218,736</u>	<u>11,173,487</u>	<u>1,758,266</u>
CURRENT ASSETS				
Cash and cash equivalents	9,697,636	193,545	-	9,891,181
Cash and cash equivalents - board designated	1,002,529	-	-	1,002,529
Accounts receivable, net of allowance for credit losses of \$164,907 in 2022	6,240,612	177,847	(18,582)	6,399,877
Interest receivable	55,550	-	-	55,550
Materials and supplies	3,766,502	1,760,611	-	5,527,113
Prepaid expenses	733,741	136,388	-	870,129
Total current assets	<u>21,496,570</u>	<u>2,268,391</u>	<u>(18,582)</u>	<u>23,746,379</u>
DEFERRED CHARGES	<u>4,501,196</u>	<u>-</u>	<u>-</u>	<u>4,501,196</u>
TOTAL ASSETS	<u>\$ 117,910,776</u>	<u>\$ 22,048,659</u>	<u>\$ 11,154,905</u>	<u>\$ 151,114,340</u>
EQUITIES AND MARGINS				
Memberships	\$ 58,380	\$ -	\$ -	\$ 58,380
Patronage capital	47,245,721	-	-	47,245,721
Undistributed subsidiary losses	(13,311,621)	(13,311,621)	13,311,621	(13,311,621)
Donated and other equities	10,997,394	-	-	10,997,394
Total equity and margins	<u>44,989,874</u>	<u>(13,311,621)</u>	<u>13,311,621</u>	<u>44,989,874</u>
LONG-TERM DEBT AND LIABILITIES, less current maturities				
RUS mortgage notes	58,119,090	-	-	58,119,090
CFC mortgage notes	7,149,506	-	-	7,149,506
Loan payable	2,174,519	25,696,855	-	27,871,374
Payable to OPALCO (Note 5)	-	2,138,134	(2,138,134)	-
Operating lease liability, net of current portion	-	608,819	-	608,819
Finance lease liability, net of current portion	-	653,350	-	653,350
Total long-term debt	<u>67,443,115</u>	<u>29,097,158</u>	<u>(2,138,134)</u>	<u>94,402,139</u>
CURRENT LIABILITIES				
Accounts payable	1,896,315	419,852	(18,582)	2,297,585
Customer deposits	70,129	-	-	70,129
Accrued liabilities	1,473,138	724,576	-	2,197,714
Line of credit	-	3,500,000	-	3,500,000
Current portion of operating lease liability	-	302,735	-	302,735
Current portion of finance lease liability	-	335,316	-	335,316
Current maturities of long-term debt	1,739,499	980,643	-	2,720,142
Total current liabilities	<u>5,179,081</u>	<u>6,263,122</u>	<u>(18,582)</u>	<u>11,423,621</u>
DEFERRED CREDITS	<u>298,706</u>	<u>-</u>	<u>-</u>	<u>298,706</u>
EQUITIES, MARGINS, AND LIABILITIES	<u>\$ 117,910,776</u>	<u>\$ 22,048,659</u>	<u>\$ 11,154,905</u>	<u>\$ 151,114,340</u>

See report of independent auditors.

Orcas Power & Light Cooperative and Subsidiary
Consolidating Statement of Revenues and Margins
Year Ended December 31, 2023

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
OPERATING REVENUES				
Electricity sales	\$ 36,507,728	\$ -	\$ (182,123)	\$ 36,325,605
Broadband sales	-	10,917,772	(442,359)	10,475,413
Total operating revenues	36,507,728	10,917,772	(624,482)	46,801,018
OPERATING EXPENSES				
Cost of purchased power	8,571,913	-	-	8,571,913
Transmission	1,348,268	-	-	1,348,268
Distribution - operations	3,796,463	-	-	3,796,463
Distribution - maintenance	3,214,269	-	-	3,214,269
Consumer accounts	1,085,072	-	-	1,085,072
Broadband services	-	1,420,571	(291,863)	1,128,708
Administrative and general	4,838,324	5,052,705	(442,359)	9,448,670
Depreciation and amortization	5,396,359	1,812,384	-	7,208,743
Operating lease expense	-	316,935	-	316,935
Taxes	1,610,154	316,537	-	1,926,691
Total operating expenses	29,860,822	8,919,132	(734,222)	38,045,732
Operating margins before fixed charges	6,646,906	1,998,640	109,740	8,755,286
FIXED CHARGES				
Interest on long-term debt	1,906,039	1,417,925	(79,587)	3,244,377
Operating margins after fixed charges	4,740,867	580,715	189,327	5,510,909
PATRONAGE CAPITAL CREDITS	107,198	-	-	107,198
Net operating margins	4,848,065	580,715	189,327	5,618,107
NONOPERATING MARGINS				
Interest income	686,626	-	(79,587)	607,039
Other income	90,879	1,264,236	(109,740)	1,245,375
Total nonoperating margins	777,505	1,264,236	(189,327)	1,852,414
Net operating and nonoperating margins	5,625,570	1,844,951	-	7,470,521
INCOME FROM SUBSIDIARY	1,844,951	-	(1,844,951)	-
NET MARGINS	\$ 7,470,521	\$ 1,844,951	\$ (1,844,951)	\$ 7,470,521

See report of independent auditors.

Orcas Power & Light Cooperative and Subsidiary
Consolidating Statement of Revenues and Margins
Year Ended December 31, 2022

	OPALCO	Island Network, LLC	Eliminating Entries	Consolidated Total
OPERATING REVENUES				
Electricity sales	\$ 35,679,624	\$ -	\$ (155,739)	\$ 35,523,885
Broadband sales	-	9,402,727	(392,061)	9,010,666
Total operating revenues	<u>35,679,624</u>	<u>9,402,727</u>	<u>(547,800)</u>	<u>44,534,551</u>
OPERATING EXPENSES				
Cost of purchased power	9,756,442	-	-	9,756,442
Transmission	730,538	-	-	730,538
Distribution - operations	3,900,840	-	-	3,900,840
Distribution - maintenance	3,107,333	-	-	3,107,333
Consumer accounts	1,113,268	-	-	1,113,268
Broadband services	-	1,254,352	(265,479)	988,873
Administrative and general	4,648,749	4,758,860	(392,061)	9,015,548
Depreciation and amortization	5,416,108	1,754,883	-	7,170,991
Operating lease expense	-	309,261	-	309,261
Taxes	1,629,555	301,275	-	1,930,830
Total operating expenses	<u>30,302,833</u>	<u>8,378,631</u>	<u>(657,540)</u>	<u>38,023,924</u>
Operating margins before fixed charges	5,376,791	1,024,096	109,740	6,510,627
FIXED CHARGES				
Interest on long-term debt	1,958,757	1,231,236	(79,572)	3,110,421
Operating margins after fixed charges	3,418,034	(207,140)	189,312	3,400,206
PATRONAGE CAPITAL CREDITS				
Net operating margins	<u>3,548,874</u>	<u>(207,140)</u>	<u>189,312</u>	<u>3,531,046</u>
NONOPERATING MARGINS				
Interest income	340,489	-	(79,572)	260,917
Other income	98,453	124,541	(109,740)	113,254
Total nonoperating margins	<u>438,942</u>	<u>124,541</u>	<u>(189,312)</u>	<u>374,171</u>
Net operating and nonoperating margins	<u>3,987,816</u>	<u>(82,599)</u>	<u>-</u>	<u>3,905,217</u>
LOSS FROM SUBSIDIARY	<u>(82,599)</u>	<u>-</u>	<u>82,599</u>	<u>-</u>
NET MARGINS	<u>\$ 3,905,217</u>	<u>\$ (82,599)</u>	<u>\$ 82,599</u>	<u>\$ 3,905,217</u>

See report of independent auditors.

Report Required by *Government Auditing Standards*

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 Subsidiary (collectively, the Cooperative), which comprise the consolidated balance sheet as of December 31, 2023, and the related statements of revenues and margins, consolidated changes in patronage capital and other equities, and consolidated statements of cash flows for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated May 7, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Everett, Washington

May 7, 2024

