



Isle au Haut Electric Power Company

FINANCIAL STATEMENTS

December 31, 2022 and 2021

With Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Isle au Haut Electric Power Company

Opinion

We have audited the financial statements of Isle au Haut Electric Power Company which comprise the balance sheet as of December 31, 2022, and the related statements of operations and net assets, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of Isle au Haut Electric Power Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 Isle au Haut Electric Power Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Isle au Haut Electric Power Company as of and for the year ended December 31, 2021 were audited by other auditors whose report dated April 25, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Isle au Haut Electric Power Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 U.S. generally accepted 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 U.S. generally accepted 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 Isle au Haut Electric Power Company'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 Isle au Haut Electric Power Company'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.

Portland, Maine
REPORT DATE

ISLE AU HAUT ELECTRIC POWER COMPANY

Balance Sheets

December 31, 2022 and 2021

ASSETS

| | <u>2022</u> | <u>2021</u> |
|--|---------------------------------|--------------------------|
| Electric plant | | |
| In service, at cost | \$ 637,281 | \$ 637,281 |
| Construction work-in-progress | <u>3,676</u> | <u>3,389</u> |
| | 640,957 | 640,670 |
| Less accumulated depreciation | <u>(520,124)</u> | <u>(508,582)</u> |
| Net electric plant | <u>120,833</u> | <u>132,088</u> |
| Noncurrent assets - Solar array investment | <u>252,073</u> | <u>289,333</u> |
| Current assets | | |
| Cash | 90,823 | 59,561 |
| Accounts receivable | 22,142 | 18,594 |
| Inventory | 5,485 | 5,485 |
| Prepaid expenses | <u>2,677</u> | <u>2,677</u> |
| Total current assets | <u>121,127</u> | <u>86,317</u> |
| | <u><u>\$ 494,033</u></u> | <u><u>\$ 507,738</u></u> |

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The accompanying notes are an integral part of these financial statements.

EQUITIES AND LIABILITIES

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Net assets | | |
| Other equity | \$ 1,989 | \$ 1,989 |
| Unrestricted net assets | <u>391,253</u> | <u>397,468</u> |
| Total net assets | <u>393,242</u> | <u>399,457</u> |
| Current liabilities | | |
| Accounts payable | 19,049 | 15,814 |
| Membership payable | 36,875 | 36,875 |
| Promissory notes payable | 28,500 | 28,500 |
| Accrued expenses and other current liabilities | 10,788 | 10,000 |
| Deferred revenue | <u>5,579</u> | <u>17,092</u> |
| Total liabilities | <u>100,791</u> | <u>108,281</u> |
| | <u>\$ 494,033</u> | <u>\$ 507,738</u> |

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ISLE AU HAUT ELECTRIC POWER COMPANY

Statements of Operations and Net Assets

Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|--------------------------|--------------------------|
| Operating revenue | \$ <u>139,974</u> | \$ <u>128,718</u> |
| Operating expenses | | |
| Cost of purchased power | 43,340 | 31,766 |
| Repairs and maintenance | 4,552 | 3,303 |
| Heat pump installation | 160 | 23,131 |
| Payroll | 47,155 | 59,702 |
| Payroll taxes | 3,991 | 5,257 |
| License and fees | 4,521 | 4,950 |
| Office supplies | 3,736 | 4,413 |
| Professional fees | 21,309 | 18,132 |
| Utilities and telephone | 4,628 | 3,118 |
| Insurance | 6,039 | 4,984 |
| Depreciation and amortization | 11,542 | 7,817 |
| Miscellaneous | <u>1,695</u> | <u>1,616</u> |
| Total operating expenses | <u>152,668</u> | <u>168,189</u> |
| Operating loss | (12,694) | (39,471) |
| Other income, net | <u>6,479</u> | <u>69,798</u> |
| Net (loss) income | (6,215) | 30,327 |
| Net assets, beginning of year | <u>399,457</u> | <u>369,130</u> |
| Net assets, end of year | \$ <u><u>393,242</u></u> | \$ <u><u>399,457</u></u> |

The accompanying notes are an integral part of these financial statements.

ISLE AU HAUT ELECTRIC POWER COMPANY

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Net (loss) income | \$ (6,215) | \$ 30,327 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities | | |
| Depreciation | 11,542 | 7,817 |
| (Increase) decrease in | | |
| Accounts receivable | (3,548) | 18,484 |
| Inventory | - | 13,816 |
| Prepaid expenses | - | (692) |
| Solar array | 37,260 | 30,778 |
| Increase (decrease) in | | |
| Accounts payable | 3,235 | (85,319) |
| Accrued expenses and other current liabilities | 788 | 10,000 |
| Deferred revenue | <u>(11,513)</u> | <u>(47,458)</u> |
| Net cash provided (used) by operating activities | <u>31,549</u> | <u>(22,247)</u> |
| Cash flows from investing activities | | |
| Extension and replacement of plant | <u>(287)</u> | <u>(5,431)</u> |
| Net cash used by investing activities | <u>(287)</u> | <u>(5,431)</u> |
| Cash flows from financing activities | | |
| Principal payments on promissory notes payable | <u>-</u> | <u>(5,500)</u> |
| Net cash used by financing activities | <u>-</u> | <u>(5,500)</u> |
| Net increase (decrease) in cash | 31,262 | (33,178) |
| Cash, beginning of year | <u>59,561</u> | <u>92,739</u> |
| Cash, end of year | <u>\$ 90,823</u> | <u>\$ 59,561</u> |

The accompanying notes are an integral part of these financial statements.

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2022 and 2021

Nature of Business

Isle au Haut Electric Power Company (the Company) is a privately owned cooperative corporation created for the purpose of acquiring and providing electric power and related services for the island of Isle Au Haut, Maine. The Company is managed by a board of directors. Previously, members owned a share of member equity with a \$5 par value that is now due back to the members and is reported as a liability on the balance sheets.

The Company is governed by a board of directors elected by its members at the Company's annual meeting. The directors outline annually the accomplishments and priorities of the Company. Management of the Company is expected to follow the objective of the board of directors as well as maintain compliance with Maine Public Utilities Commission (MPUC), State of Maine and Federal laws and regulations. The Company is a Maine corporation, incorporated in 1969.

The Company extends credit based on guidelines set by the MPUC, and payment for electrical services is due within 25 days of receipt of billings.

1. **Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

The Company follows the accounting prescribed by the Federal Energy Regulatory Commission (FERC) chart of accounts and the MPUC, and Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Regulated Operations*. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. The Company annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

Electric Plant

Plant and equipment are depreciated by the straight-line method over the estimated useful lives of the respective assets of 5 to 20 years for equipment and 39 years for buildings. When depreciable plant is retired in the normal course of business, the capitalized costs and cost of removal less salvage is charged to the applicable accumulated depreciation account. Costs of maintenance, repairs and similar replacement of minor items of plant are expensed as incurred. Customer contributions to plant are credited to the respective plant accounts to reduce the original costs.

The accompanying notes are an integral part of these financial statements.

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2022 and 2021

Cash

All liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on historical information and an assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable. As of December 31, 2022, 2021, and 2020 accounts receivable balances related to contracts with customers were \$22,142, \$18,594, and \$28,251, respectively.

Inventory

Inventory is determined by the first-in first-out method and represents the cost of generator fuel on hand at year end as well as the cost of heat pumps on hand at year end.

Revenues

The Company recognizes revenues in accordance with FASB ASC 606, *Revenue from Contracts with Customers*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

Operating revenues are primarily based on rates which are authorized by the MPUC. The rates are applied to customers' usage, which the Company bills to its customers on a monthly basis. Revenues are recognized in the amount to which the Company has the right to invoice, over the period of time the services are rendered.

Deferred revenues represent amounts customers have paid in advance of services provided. There was no deferred revenue at January 1, 2021.

Income Taxes

The Company is a nonprofit organization and is exempt from federal income tax under Internal Revenue Code Section 501(c)(12) as long as 85% or more of its gross income consists of amounts applicable to members for the sole purpose of meeting operating costs and expenses, and the Company does not engage in business not related to its exemption.

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2022 and 2021

Taxes Collected from Customers and Remitted to Taxing Authorities

The Company reports taxes collected from customers and remitted to taxing authorities as a liability when billed to customers and excluded from revenues and expenses.

2. Electric Plant and Depreciation

Listed below are the major classes of the electric plant:

| | <u>2022</u> | <u>2021</u> |
|------------------------|-------------------|-------------------|
| Land and buildings | \$ 166,939 | \$ 166,939 |
| Submarine cable | 115,191 | 115,191 |
| Transmission equipment | 269,066 | 269,066 |
| Vehicles | 47,254 | 47,254 |
| Software | 4,875 | 4,875 |
| Other equipment | <u>33,956</u> | <u>33,956</u> |
| | <u>\$ 637,281</u> | <u>\$ 637,281</u> |

3. Promissory Notes Payable

During 2020, the Company issued several promissory notes payable in the amount of \$5,500 each to assist with cash flow in relation to the Company's heat pump project. During 2021, all but one of the promissory notes were reissued as long-term promissory notes payable at the rate of 3.5% per annum with balances due in full by December 31, 2026. One of the promissory notes payable was repaid in full. The balance of the promissory notes payable at December 31, 2022 and 2021 was \$16,500.

During 2020, the Company collected prepayments of assessments, known as solar assessments, in amounts ranging from \$5,300 to \$6,000. The Company collected a total of \$76,550 in prepaid solar assessment payments. During 2021, it was determined that the solar project, as originally intended, would be abandoned. During 2021, eight customers agreed to donate their payments without restrictions for a total amount of \$47,300, which is included in other income, net in the 2021 statement of operations and net assets. One customer requested their payment of \$6,000 be considered a prepayment for power services, which is included in deferred revenue in the balance sheets. Two customers agreed to convert their prepayments into promissory notes payable with interest ranging from 0% to 3.5% per annum and all principal and interest due and payable on December 31, 2036. Interest accrues annually and is added to the outstanding promissory notes payable balances. At December 31, 2021, two customers were undecided how they wished to have their prepayments handled. During 2022, one customer requested repayment in the amount of \$5,600 and one agreed to donate without restrictions in the amount of \$5,650, which is included in other income, net in the 2022 statement of operations and net assets.

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2022 and 2021

Estimated maturities on the promissory notes are as follows:

| | | |
|------------|----|--------|
| 2023 | \$ | - |
| 2024 | | - |
| 2025 | | - |
| 2026 | | 16,500 |
| 2027 | | - |
| Thereafter | | 12,000 |

4. Commitments and Contingencies

The Company is involved in legal complaints and proceedings in the normal course of business operations. In the opinion of management, these proceedings will not have a material adverse impact on the financial condition of the Company.

The Company had significant engineering work performed by a consulting company, Solar Design Associates, over the time period of 2016 through 2018. The work performed was for the Solar Array project that has since been abandoned. The Company has not been invoiced for the work that was performed and the potential liability is undeterminable at this time.

The Company had significant balances due to legal firm Curtis Thaxter. During 2021, an agreement was reached that the Company would pay Curtis Thaxter \$25,000. Of the remaining balance of \$29,241, all but \$10,000 will be written off by Curtis Thaxter. The remaining \$10,000 will be deferred and payable to Curtis Thaxter only if (i) there is a solar project financed within the next two years (from November 18, 2021); and (ii) such amount is properly includable in any project financing as a cost determined beneficial to that project.

The Company had significant balances due to legal firm Pierce Atwood. During 2021, an agreement was reached with the Pierce Atwood that they would provide a 25% discount on the outstanding balance. The Company would then pay \$20,000 immediately. The remaining balance of \$2,613 would be paid in monthly installments of \$200 per month until the balance is paid in full. The remaining balance was paid in full as of December 31, 2022. The remaining balance as of December 31, 2021 was \$2,413.

5. Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, the Company has considered transactions or events occurring through REPORT DATE, which was the date that the financial statements were available to be issued.