




Isle au Haut Electric Power Company

FINANCIAL STATEMENTS

December 31, 2023 and 2022

With Independent Auditor's Report





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 sheets as of December 31, 2023 and 2022, and the related statements of operations and net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 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, 2023 and 2022, and the results of its operations and its cash flows for the years 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.

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.

The Board of Directors
Isle au Haut Electric Power Company

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.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
May 14, 2024

ISLE AU HAUT ELECTRIC POWER COMPANY

Balance Sheets

December 31, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Electric plant		
In service, at cost	\$ 637,815	\$ 637,281
Construction work-in-progress	<u>4,357</u>	<u>3,676</u>
	642,172	640,957
Less accumulated depreciation	<u>(527,956)</u>	<u>(520,124)</u>
Net electric plant	<u>114,216</u>	<u>120,833</u>
Noncurrent assets - Solar array investment	<u>252,073</u>	<u>252,073</u>
Current assets		
Cash	79,712	90,823
Accounts receivable	32,729	22,142
Inventory	5,521	5,485
Prepaid expenses	<u>2,677</u>	<u>2,677</u>
Total current assets	<u>120,639</u>	<u>121,127</u>
	<u>\$ 486,928</u>	<u>\$ 494,033</u>

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

EQUITIES AND LIABILITIES

	<u>2023</u>	<u>2022</u>
Net assets		
Other equity	\$ 1,989	\$ 1,989
Unrestricted net assets	<u>403,135</u>	<u>391,253</u>
Total net assets	<u>405,124</u>	<u>393,242</u>
Current liabilities		
Accounts payable	11,425	19,049
Accrued expenses and other current liabilities	1,575	10,788
Deferred revenue	<u>3,429</u>	<u>5,579</u>
Total current liabilities	16,429	35,416
Promissory notes payable	28,500	28,500
Membership payable	<u>36,875</u>	<u>36,875</u>
Total liabilities	<u>81,804</u>	<u>100,791</u>
	<u>\$ 486,928</u>	<u>\$ 494,033</u>

ISLE AU HAUT ELECTRIC POWER COMPANY

Statements of Operations and Net Assets

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenue	\$ <u>171,484</u>	\$ <u>139,974</u>
Operating expenses		
Cost of purchased power	63,627	43,340
Repairs and maintenance	10,520	4,552
Heat pump installation	-	160
Payroll	48,949	47,155
Payroll taxes	3,651	3,991
License and fees	5,496	4,521
Office supplies	3,440	3,736
Professional fees	17,047	21,309
Utilities and telephone	2,799	4,628
Insurance	5,342	6,039
Depreciation	7,832	11,542
Miscellaneous	<u>2,802</u>	<u>1,695</u>
Total operating expenses	<u>171,505</u>	<u>152,668</u>
Operating loss	(21)	(12,694)
Other income, net	<u>11,903</u>	<u>6,479</u>
Net income (loss)	11,882	(6,215)
Net assets, beginning of year	<u>393,242</u>	<u>399,457</u>
Net assets, end of year	<u>\$ 405,124</u>	<u>\$ 393,242</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income (loss)	\$ 11,882	\$ (6,215)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities		
Depreciation	7,832	11,542
Forgiveness of liability	(10,000)	-
(Increase) decrease in		
Accounts receivable	(10,587)	(3,548)
Inventory	(36)	-
Solar array	-	37,260
(Decrease) increase in		
Accounts payable	(7,624)	3,235
Accrued expenses and other current liabilities	787	788
Deferred revenue	<u>(2,150)</u>	<u>(11,513)</u>
Net cash (used) provided by operating activities	<u>(9,896)</u>	<u>31,549</u>
Cash flows from investing activities		
Extension and replacement of electric plant	<u>(1,215)</u>	<u>(287)</u>
Cash used by investing activities	<u>(1,215)</u>	<u>(287)</u>
Net (decrease) increase in cash	(11,111)	31,262
Cash, beginning of year	<u>90,823</u>	<u>59,561</u>
Cash, end of year	<u>\$ 79,712</u>	<u>\$ 90,823</u>

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

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2023 and 2022

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) Topic 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 Topic 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, 2023 and 2022

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

Effective January 1, 2023, the Company adopted FASB Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*, and related guidance as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Company adopted this new guidance utilizing the modified retrospective transition method. Topic 326 requires measurement and recognition of expected versus incurred losses for financial assets held. Financial assets held by the Company that are subject to ASU 2016-13 include accounts receivable. The adoption of this ASU did not have a material impact on the Company's financial statements but did change how the allowance for credit losses is determined.

Accounts receivable are stated at the amount management expects to collect from outstanding balances and are reported net of any allowance for credit losses. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on historical experience, current conditions, and reasonable and supportable forecasts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2023 and 2022, the Company did not have an allowance for credit losses established since, based on the Company's analysis, the Company does not expect any credit losses over the life of its financial assets. As of January 1, 2022 accounts receivable balances related to contracts with customers was \$18,594.

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 Topic 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.

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2023 and 2022

Deferred revenues represent amounts customers have paid in advance of services provided. Deferred revenues at January 1, 2022 was \$17,092.

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.

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

Listed below are the major classes of the electric plant:

	<u>2023</u>	<u>2022</u>
Land and buildings	\$ 166,939	\$ 166,939
Submarine cable	115,191	115,191
Transmission equipment	269,066	269,066
Vehicles	47,788	47,254
Software	4,875	4,875
Other equipment	<u>33,956</u>	<u>33,956</u>
	<u>\$ 637,815</u>	<u>\$ 637,281</u>

3. Promissory Notes Payable

The Company has three 3.5% promissory notes payable in the amount of \$5,500 each, which assisted with cash flow in relation to the Company's heat pump project. The outstanding principal balance and all accrued interest is due and payable by December 31, 2026. The balance of these promissory notes payable at December 31, 2023 and 2022 totaled \$16,500.

The Company has two 3.5% promissory notes payable in the amount of \$6,000 each, which assisted with cash flow in relation to the Company's solar investment. The outstanding principal balance and all accrued interest is due and payable by December 31, 2026. The balance of these promissory notes payable at December 31, 2023 and 2022 totaled \$12,000.

ISLE AU HAUT ELECTRIC POWER COMPANY

Notes to Financial Statements

December 31, 2023 and 2022

Estimated maturities on the promissory notes are as follows:

Years ending:		
2024	\$	-
2025		-
2026		16,500
2027		-
2028		-
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 balances due to legal firm Curtis Thaxter. During 2021, an agreement was reached that the Company would pay Curtis Thaxter \$25,000 and Curtis Thaxter would write off all but \$10,000. The remaining \$10,000 will be deferred and payable to Curtis Thaxter only if (i) there is a solar project financed by November 18, 2023 and (ii) such amount is properly includable in any project financing as a cost determined beneficial to that project. Since the project was not financed within this timeframe, this payable was no longer due to Curtis Thaxter and the Company recognized the forgiveness of this payable as other income in the 2023 statements of operations and net assets.

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 May 14, 2024, which was the date that the financial statements were available to be issued.