



Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Kaua'i Island Utility Cooperative and Subsidiaries

December 31, 2024 and 2023

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Report of Independent Auditors

The Board of Directors
Kaua'i Island Utility Cooperative and Subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Kaua'i Island Utility Cooperative and Subsidiaries (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, equities, and cash flows the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kaua'i Island Utility Cooperative and Subsidiaries as of December 31, 2024 and 2023, and the changes in their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. 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 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 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 opinions on the consolidated financial statements that collectively comprise the Kaua'i Island Utility Cooperative and Subsidiaries basic financial statements. The consolidating balance sheets and consolidating statements of operations, (collectively, supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating balance sheets and consolidating statements of operations are fairly stated, in all material respects, in relation to the basic 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 March 21, 2025 on our consideration of Kaua'i Island Utility Cooperative and Subsidiaries 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 Kaua'i Island Utility Cooperative and Subsidiaries 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 Kaua'i Island Utility Cooperative and Subsidiaries internal control over financial reporting and compliance.

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

Portland, Oregon
March 21, 2025

Consolidated Financial Statements

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Balance Sheets
December 31, 2024 and 2023

	2024	2023
ASSETS		
ASSETS		
Utility plant		
Electric plant in service	\$ 610,601,334	\$ 608,917,452
Right of use asset - operating lease	15,801,084	16,382,874
Electric plant acquisition cost	54,852,453	54,852,453
Accumulated depreciation and amortization	<u>(365,216,992)</u>	<u>(365,047,499)</u>
Net electric plant in service	<u>316,037,879</u>	<u>315,105,280</u>
Construction work in progress	<u>10,277,336</u>	<u>11,164,049</u>
Net utility plant	<u>326,315,215</u>	<u>326,269,329</u>
Other property and investments		
Investments in associated organizations	2,013,268	2,128,087
Rural economic development loans	<u>1,965,795</u>	<u>972,071</u>
Total other property and investments	<u>3,979,063</u>	<u>3,100,158</u>
CURRENT ASSETS		
Cash and cash equivalents	44,090,700	44,655,371
Restricted cash and cash equivalents	322,969	1,298,990
Accounts and notes receivable, net	13,228,373	14,406,845
Accrued unbilled revenue	10,562,913	8,743,081
Energy rate adjustment clause	144,676	-
Fuel inventory	1,143,996	1,559,984
Materials and supplies	21,121,346	20,722,734
Other current assets	<u>1,610,751</u>	<u>1,329,072</u>
Total current assets	<u>92,225,724</u>	<u>92,716,077</u>
Post-retirement benefit asset	<u>805,750</u>	<u>63,548</u>
Deferred debits	<u>32,739,111</u>	<u>38,225,997</u>
	<u>\$ 456,064,863</u>	<u>\$ 460,375,109</u>

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Balance Sheets
December 31, 2024 and 2023

	2024	2023
EQUITIES AND LIABILITIES		
EQUITIES		
Controlling equity interest	\$ 146,603,231	\$ 139,000,882
Noncontrolling equity interest	17,625,064	17,666,736
Total equities	164,228,295	156,667,618
LONG-TERM LIABILITIES		
Long-term debt, less current portion	225,510,547	237,174,867
Operating lease obligation	15,482,645	16,004,617
Asset retirement obligations	3,198,096	3,075,035
Total long-term liabilities	244,191,288	256,254,519
CURRENT LIABILITIES		
Current maturities of long-term debt	11,528,575	11,233,584
Accounts payable	7,250,949	8,344,475
Current maturities of operating lease obligation	811,177	674,238
Energy rate adjustment clause	-	644,475
Consumer deposits	1,433,888	1,302,837
Accrued employee compensation	2,671,276	2,518,252
Accrued taxes	9,864,765	8,470,966
Other current and accrued liabilities	1,312,346	1,200,317
Total current liabilities	34,872,976	34,389,144
Deferred credits	12,772,304	13,063,828
	\$ 456,064,863	\$ 460,375,109

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Residential	\$ 79,983,441	\$ 72,799,495
Commercial and industrial	107,769,950	95,894,420
Public street and highway lighting	806,209	667,512
Irrigation	246,415	274,534
Other operating revenues	482,384	461,907
Loss gross margin change in deferral	(3,881,617)	-
Total operating revenues	185,406,782	170,097,868
OPERATING EXPENSES		
Cost of power	101,712,144	94,853,081
Transmission – operation and maintenance	2,060,512	1,334,213
Distribution – operation and maintenance	7,199,250	6,606,201
Customer service	2,807,581	2,426,903
Administrative and general	26,018,757	22,396,985
Depreciation and amortization	17,786,292	18,737,925
Taxes	15,706,168	14,457,938
Accretion expense	123,061	117,115
Total operating expenses	173,413,765	160,930,361
OPERATING MARGIN BEFORE INTEREST	11,993,017	9,167,507
INTEREST ON LONG-TERM DEBT	6,956,228	7,331,442
OPERATING MARGINS	5,036,789	1,836,065
NONOPERATING MARGINS		
Interest income	1,734,110	2,015,695
Capital credits	97,845	197,835
Other nonoperating income, net	171,723	202,555
Total nonoperating margins	2,003,678	2,416,085
NET MARGINS	7,040,467	4,252,150
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	12,244	8,514
NET MARGINS – COOPERATIVE	7,052,711	4,260,664
COMPREHENSIVE GAIN		
Postretirement benefit obligation gain	731,512	131,385
COMPREHENSIVE INCOME – COOPERATIVE	\$ 7,784,223	\$ 4,392,049

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Equities
Years Ended December 31, 2024 and 2023

	2024	2023
CONTROLLING EQUITY INTEREST		
Memberships		
Balance at January 1	\$ 610	\$ 598
Additions	13	12
	623	610
Patronage capital		
Balance at January 1	138,727,449	134,713,705
Transfer of net margins	7,052,711	4,260,664
Retirement of capital credits, net	(265,031)	(246,920)
	145,515,129	138,727,449
Other equity		
Balance at January 1	1,218,229	1,139,315
Additions	83,144	78,914
	1,301,373	1,218,229
Accumulated other comprehensive loss		
Balance at January 1	(945,406)	(1,076,791)
Amortization of gains	7,869	52,367
Actuarial gain	723,643	79,018
	(213,894)	(945,406)
Total controlling equity interest	146,603,231	139,000,882
NONCONTROLLING EQUITY INTEREST		
Capital account – A&B KRS II		
Balance at January 1	17,666,736	17,724,051
Distributions	(29,428)	(48,801)
Noncontrolling interest in current loss	(12,244)	(8,514)
	17,625,064	17,666,736
Total noncontrolling equity interest	17,625,064	17,666,736
Total equities	\$ 164,228,295	\$ 156,667,618

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
OPERATING ACTIVITIES		
Net margins	\$ 7,052,711	\$ 4,260,664
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	17,786,292	18,737,925
Amortization of deferred debits	5,056,195	(3,882,824)
Accretion of asset retirement obligation	123,061	117,115
Noncash lease expense	(385,033)	(635,689)
Interest earned on cushion of credit	(6)	(118,531)
Capital credit allocations	(97,845)	(197,834)
Net margins attributable to non-controlling interest	(12,244)	(8,514)
Changes in assets and liabilities		
Accounts receivable and unbilled revenue	(641,360)	(818,059)
Energy rate adjustment clause	(789,151)	733,901
Inventories and other current assets	(264,303)	264,200
Deferred debits	430,691	-
Postretirement benefit obligation/asset	(10,690)	88,443
Payables, customer deposits, and accrued expenses	696,377	(2,986)
Deferred credits	(291,524)	2,154,649
	<u>28,653,171</u>	<u>20,692,460</u>
INVESTING ACTIVITIES		
Additions to utility plant, net	(17,832,178)	(15,462,097)
Issuance of rural economic development loans	(1,175,000)	-
Payments received on rural economic development loans	181,276	(4,637)
Other investments	212,664	10,094,817
	<u>(18,613,238)</u>	<u>(5,371,917)</u>
FINANCING ACTIVITIES		
Principal payments on long-term debt	(11,369,323)	(7,267,385)
Distributions to non-controlling equity interest	(29,428)	(48,801)
Memberships	13	12
Other equities	83,144	78,914
Retirement of patronage capital	(265,031)	(246,920)
	<u>(11,580,625)</u>	<u>(7,484,180)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,540,692)	7,836,363
CASH AND CASH EQUIVALENTS, beginning of year	<u>45,954,361</u>	<u>38,117,998</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 44,413,669</u>	<u>\$ 45,954,361</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	<u>\$ 6,808,978</u>	<u>\$ 7,476,080</u>
Income taxes	<u>\$ 12,400</u>	<u>\$ 12,400</u>

See accompanying notes.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 – Organization

General – Kaua'i Island Utility Cooperative (Cooperative), a not-for-profit cooperative association pursuant to the provisions of Chapter 421C of the Hawaii Revised Statutes, was formed to purchase and operate the electric utility on the island of Kaua'i, Hawaii. The Cooperative is the exclusive retail electric service provider for the island of Kaua'i and provides electric generation, transmission, and distribution services to approximately 39,000 customers. The Cooperative's headquarters facility is located in Lihue, Hawaii.

KIUC Renewable Solutions One LLC (KRS One) is a wholly owned subsidiary created to construct, own, and operate a photovoltaic (PV) facility for the purpose of selling the renewable energy produced by the PV facility to the Cooperative for use in the Cooperative's operations. The facility went into commercial operation on October 30, 2015.

KIUC Renewable Solutions Two LLC (KRS Two) was created to construct, own, and operate a PV facility for the purpose of selling the renewable energy produced by the PV facility to the Cooperative for use in the Cooperative's operations. The facility went into commercial operation on September 5, 2014.

KIUC Renewable Solutions Two Holdings LLC (KRS Two Holdings) is a wholly owned subsidiary and was created as a holding company to own KRS Two. On August 28, 2013, the Cooperative transferred 100% of its membership interests in KRS Two to KRS Two Holdings.

On July 3, 2014, KRS Two Holdings and A&B KRS II LLC (Investor) entered into an Amended and Restated Limited Liability Company Agreement (the LLC Agreement) of KRS Two. On that date, KRS Two Holdings made a capital contribution to KRS Two in exchange for all of the Class A membership interests in KRS Two and the Investor made a capital contribution to KRS Two in exchange for all of the Class B Membership Interests in KRS Two. KRS Two Holdings is the Managing Member of KRS Two. Allocations of profits, losses, contributions, and distributions are made in accordance with the LLC Agreement. In accordance with the LLC Agreement, the "Flip Date" means the date on which Investor achieves an Internal Rate of Return (IRR) equal to the Target IRR, as defined in the LLC Agreement. The Flip Date occurred during 2020.

Note 2 – Summary of Significant Accounting Policies

The accompanying consolidated financial statements reflect the financial position and results of operations for the Cooperative and its wholly owned subsidiaries KRS One and KRS Two Holdings. See Note 2, principles of consolidation, for further discussion on consolidation.

Principles of consolidation – The consolidated financial statements include the accounts of the Cooperative and its wholly owned subsidiaries, KRS One and KRS Two Holdings. KRS Two Holdings' consolidated financial statements include the accounts of KRS Two Holdings' partially owned subsidiary KRS Two. The consolidation of the Cooperative, KRS One, and KRS Two Holdings eliminated all inter-company transactions and balances. The consolidation of KRS Two Holdings and KRS Two eliminated all intercompany transactions and balances. See supplementary information for details on the elimination of intercompany transactions and balances.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

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 or permitted by the Hawaii Public Utilities Commission (HPUC) and the United States Department of Agriculture, Rural Utilities Service (RUS).

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities.

Electric plant, acquisition cost, depreciation, amortization, and maintenance – Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor and materials, and overhead items (see Note 3). Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

On November 1, 2002, the Cooperative acquired substantially all of the assets of Kaua'i Electric (KE), a division of Citizens Communications Company (Citizens). Electric plant acquisition costs represent the difference between the purchase price for the acquisition of KE's assets and the carrying value of those assets. This amount is being amortized over the remaining useful life of the assets acquired which was originally estimated to be 25 years.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation. Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and capital accounts. Management assesses impairment and the existence of asset retirement obligations annually and as circumstances warrant.

Investments in associated organizations – Investments in associated organizations are carried at cost (see Note 4), plus capital credits allocated and not retired.

Rural economic development loans – The Cooperative has received Rural Economic Development Grants (RED Grant) from the USDA Rural Development (USDA RD) Office in order to provide loans to promote sustainable rural economic development and job creation projects. The Cooperative is required to match 20% of the RED Grant award. The RED Grant is awarded to the Cooperative, who in turn loans the funds to the eligible project applicant at 0% interest for a term of up to 10 years. When the loan recipient repays the loan, the loan funds are retained and placed into the Revolving Loan Fund (RLF) and then reused to fund new loans to additional projects (RLF Loans). The RLF Loans are made in accordance with the USDA RD approved Revolving Loan Fund Plan Loan Policies and Procedures Manual. Both the RED Grant loans and the RLF loans are stated at cost (see Note 4).

Cash equivalents – The Cooperative considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents reported on the consolidated statement of cash flows includes both cash and cash equivalents and restricted cash.

Restricted cash – Restricted cash is restricted for rural economic development loans.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Accounts and notes receivable – Accounts and notes 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 losses to estimate losses from uncollectible accounts. The allowance for credit losses is estimated considering the Cooperative's historical losses, review of specific problem accounts, existing and reasonably supportable expected future economic conditions and the financial stability of its customers. Generally, the Cooperative considers accounts receivable past due after 30 days. The allowance for doubtful accounts was \$269,427 and \$83,332 as of December 31, 2024 and 2023, respectively.

Materials and supplies and fuel inventory – Materials and supplies inventories consist primarily of items for construction and maintenance of electric plant and are valued at average unit cost. Fuel inventories consist of naphtha, diesel, and biodiesel fuel for the generation units and are valued at lower of cost or net realizable value.

Post-retirement benefits – The Cooperative sponsors a Retiree Welfare Benefit Plan (the Plan). The Cooperative accounts for the Plan by reporting the current economic status (the overfunded or underfunded status) of the Plan in the balance sheet and measuring the Plan assets and Plan obligations as of the balance sheets date (see Note 12).

Deferred debits and credits – Due to regulation of its rates by the HPUC, the Cooperative follows regulatory accounting requirements. Regulatory accounting requirements recognize that the ratemaking process can result in differences in the application of generally accepted accounting principles between regulated and nonregulated businesses. Such differences generally involve the accounting period in which various transactions enter into the determination of net margins. Accordingly, certain costs and income may be capitalized as a regulatory asset or liability that would otherwise be charged to expense or revenues. Regulatory assets and liabilities are recorded when it is probable that future rates will permit recovery and are approved by the HPUC (see Note 5 and Note 8). Such balances are amortized over the period specified by the HPUC. Deferred debits and credits consist of the following:

Preliminary survey and investigation charges – Preliminary Survey and Investigation (PSI) Charges include costs for preliminary surveys, plans, and investigations made for the purpose of determining the feasibility of proposed construction projects. The portion pertaining to plant which is actually constructed is charged to Construction Work in Progress. Any portion pertaining to projects that are abandoned is charged to the appropriate operating expense account (see Note 5).

Customer advances for construction – Customer advances for construction represent advances for construction jobs that the customer requested, such as line extensions. The customer advance is held in a deferred credit account until the requirements have been met, at which time the advance, or applicable proportion of the advance, is refunded. If the requirements are not met within a five-year time period, the advance is forfeited by the customer and credited to electric plant.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Overhaul accounting – In accordance with an HPUC Decision & Order, the Cooperative accrues for overhaul costs on the generation equipment by charging a proportion of the estimated cost of the overhaul, over the period covered by the overhaul cycle, to maintenance expense. The overhaul cycle for the individual generation units vary based on the type of unit and hours of use. For most generation units, the typical overhaul cycle is every two to five years. When the overhaul occurs, the actual costs are charged against the overhaul deferred credit (regulatory liability – scheduled plant maintenance), with any remaining balance being charged to maintenance expense (see Note 8).

Patronage capital – Net margins are assigned to individual Cooperative members' capital credit accounts based upon their pro rata use of total Cooperative electricity provided for the year. Capital credits are returned to members in accordance with the Cooperative's policies and the 2010 HPUC approved rate case. Under the provisions of this modified annual patronage capital refund condition, the Cooperative shall return patronage capital refunds to its members in a minimum total amount equal to the amount by which the Cooperative has exceeded a reported RUS TIER of 2.0 for the prior reporting period.

Memberships – In accordance with the Cooperative's bylaws, all electricity users can elect whether or not to become a member. Each member is entitled to one vote regardless of billing amounts.

Asset retirement obligations – The accounting for asset retirement obligations requires the recognition and measurement of liabilities for legal obligations associated with the retirement of tangible long-lived assets. Under these rules, an obligation occurs when a legally binding retirement obligation exists under enacted laws, statutes, written contracts, or oral contracts. Asset retirement obligations (AROs) are recognized at fair value as incurred and capitalized as a component of the cost of the related tangible long-lived assets with a corresponding amount recorded as a liability.

Accrued vacation – The Cooperative accrues accumulated unpaid vacation as the obligation is incurred. Compensated absences are included in "accrued employee compensation."

Sales for resale – KRS One and Two's primary revenue source is generated through the sale of electricity to a sole customer, the Cooperative, a related party, in accordance with the Purchase Power Agreements (PPA). KRS One and Two recognizes revenues based on the PPA rate authorized by the HPUC. KRS One and Two's obligation to sell electricity to its customer 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 the customer simultaneously receives and consumes the benefits provided. KRS One and Two apply 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 customer. Revenue is recorded through the consolidated balance sheets ending December 31, 2024 and 2023.

Taxes – The Cooperative is exempt from federal 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. The Cooperative adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. As of December 31, 2024 and 2023, the Cooperative does not have any uncertain tax positions. The Cooperative files an exempt organization and unrelated business income tax return in the U.S. federal jurisdiction and the corporate subsidiaries file a corporate return with the U.S. federal and state of Hawaii jurisdictions.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

The Cooperative is not exempt under Hawaii Revised Statutes from state income taxes; however, margins that are allocated within a specific time period are considered a deduction for state income tax purposes. For the state of Hawaii, the Cooperative is also assessed a 5.885% of Public Service Company Tax on gross revenues in lieu of general excise taxes and county real property taxes. Also, the Cooperative is assessed a 0.5% of Public Utility Commission Fee on gross revenues. For the County of Kaua'i, Hawaii, the Cooperative is assessed a 2.5% franchise fee on gross revenues.

KRS One is a Delaware limited liability company that has elected to be treated as a corporation for federal tax purposes. KRS One has federal and state tax net operating loss carryforwards of approximately \$35.7 million as of December 31, 2024. As of December 31, 2024, the deferred tax asset of approximately \$9.9 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$5.9 million consisting primarily of fixed assets. As of December 31, 2023, the deferred tax asset of approximately \$10.2 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$6.2 million consisting primarily of fixed assets. A valuation allowance has been recorded to offset the deferred tax asset due to the uncertainty of the ability for the Company to generate future taxable profits to utilize the tax benefit as of December 31, 2024 and 2023.

KRS Two Holdings is a Delaware limited liability company that has elected to be treated as a corporation for federal tax purposes. KRS Two has federal and state tax net operating loss carryforwards of approximately \$2.8 million as of December 31, 2024. As of December 31, 2024, the deferred tax asset of approximately \$0.9 million consists primarily of net operating losses. As of December 31, 2023, the deferred tax asset of approximately \$1.1 million consists primarily of net operating losses offset by deferred tax liabilities of approximately \$0.3 million consisting primarily of K-1 flowthrough. A valuation allowance has been recorded to offset the deferred tax asset due to the uncertainty of the ability for the Company to generate future taxable profits to utilize the tax benefit as of December 31, 2024 and 2023.

Electric revenues, accrued unbilled revenue and energy rate adjustment clause – The Cooperative recognizes revenues based on rates (tariffs) authorized by the HPUC including unbilled revenue, revenue from electric power delivered but not yet billed to the customers. The Cooperative's obligation to sell electricity to its customers generally represent a single performance obligation representing a series of distinct goods that are substantially the same and have the same pattern of transfer to the customers that are satisfied over time as the customers simultaneously receives and consumes 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 customers. Revenue is recorded through the consolidated balance sheets ending December 31, 2024 and 2023.

The Cooperative's tariffs for electric service include energy rate adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of fuel. In order to match power costs and related revenues, under-collected or over-collected power costs to be billed or credited to consumers in subsequent periods is recognized as a current asset or current liability and as an increase or decrease of classified operating revenues on the consolidated statements of operations.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Leases – The Cooperative determines whether a contract is or 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 Cooperative's right to use an underlying asset for the lease term and lease liabilities represent the Cooperative's 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 term. For this purpose, the Cooperative considers only payments that are fixed and determinable at the time of commencement. The lease ROU assets also include any lease payments made and adjustments for prepayments and lease incentives. The interest rate implicit in lease contracts is typically not readily determinable. As a result, the Cooperative utilizes a weighted average cost of capital rate, as permitted by Topic 842. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Cooperative will exercise that option.

Concentration of credit risk – Financial instruments that are exposed to concentrations of credit risk consist primarily of cash, including other investments, and receivables.

The Cooperative maintains its cash in deposit accounts in various financial institutions and its other investments in highly rated securities. At times, these balances exceed federally insured limits.

Credit is extended to customers generally without collateral requirements; however, the Cooperative requires a deposit from some members upon connection, which is applied to unpaid bills and fees in the event of default. The deposit only accrues interest if held longer than the establishment of 12 months of good payment history and is returned along with any accrued interest periodically. In addition, formal shut-off procedures are in place.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include the allowance for doubtful accounts, unbilled revenue, overhaul deferrals, the post-retirement benefit obligation, asset retirement obligation, depreciation of electric plant and weighted average cost of capital rate. Actual results could differ from those estimates.

Fair value measurements – The Cooperative has determined the fair value of certain assets and liabilities in accordance with the provisions of ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability. The Cooperative's policy is to recognize significant transfers between levels on the date of the transfer. Other investments and plan assets managed by trustee (Note 12) are considered Level 2 inputs.

Reclassification – Certain prior year balances were reclassified to conform with current year presentation.

Subsequent events – The Cooperative has evaluated subsequent events through March 21, 2025, the date the consolidated financial statements were available to be issued. On January 2, 2025, the Cooperative completed the acquisition of the remaining non-controlling interest in KRS Two.

Note 3 – Electric Plant in Service

The major classes of electric plant in service are as follows at December 31:

	Depreciation Rates	2024	2023
		<u>2024</u>	<u>2023</u>
Production plant	1.58% - 6.78%	\$ 222,817,321	\$ 228,742,639
Transmission plant	1.22% - 2.50%	101,503,571	98,766,835
Distribution plant	1.34% - 13.59%	235,140,315	229,100,775
General plant	1.91% - 20.00%	48,902,930	50,070,006
Asset retirement costs	N/A	<u>2,237,197</u>	<u>2,237,197</u>
Total electric plant in service		<u>\$ 610,601,334</u>	<u>\$ 608,917,452</u>

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Note 4 – Other Property and Investments

Other investments consisted of the following at December 31:

	2024	2023
Investments in associated organizations		
National Rural Utilities Cooperative Finance Corporation		
Capital term certificates		
Subscription capital term certificates		
(3% interest, matures 2085)	\$ 412,000	\$ 412,000
Zero term capital certificates (0% interest, mature 2024)	-	164,800
Member capital securities (5% interest, first call		
date 2024, mature 2044)	250,000	250,000
Patronage capital	1,165,134	1,125,316
Membership	1,000	1,000
Other	185,134	174,971
	2,013,268	2,128,087
Rural economic development loans		
National Tropical Botanical Gardens - RLF	166,659	-
National Tropical Botanical Gardens 2	82,500	127,500
Na Pali Brewing - RLF	387,423	430,142
Island School 2	243,333	283,333
Island School - RLF	117,628	131,096
Kauai Region Hawaii Health Systems - RLF	968,252	-
	1,965,795	972,071
Total other investments	\$ 3,979,063	\$ 3,100,158

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Note 5 – Deferred Debits

Deferred debits consisted of the following at December 31:

	2024	2023
Regulatory asset – COVID-19 (LGM)	\$ 8,899,956	\$ 12,781,573
Regulatory asset – pension costs	10,266,214	10,564,006
Regulatory asset – 2022 rate case	1,242,270	2,032,267
Preliminary survey and investigation	11,395,072	11,937,332
DHHL Lease Road Fund	633,333	673,333
HCDC Joint Development fee	95,000	101,000
Other deferred debits	207,266	136,486
Total deferred debits	\$ 32,739,111	\$ 38,225,997

Regulatory assets –

COVID-19 (LGM) – The Cooperative received interim regulatory approval to defer costs associated with suspension of disconnections and lost gross margin (LGM) and amortize them over a 15-year period or an accelerated rate if debt service coverage ratio is above 1.695, beginning in 2024. The deferred costs are recorded as a regulatory asset on the balance sheet, reflecting economic benefits expected to be realized through the amortization process. The Cooperative recognizes amortization expense related to these deferred costs in the income statement, impacting the overall financial performance over the amortization period.

Pension costs – The HPUC approved a maximum amount of annual pension plan costs to be included in rates. In 2023, the Cooperative received interim regulatory approval to increase the annual pension costs and continue to record difference between actual costs and interim approved expenses as a regulatory asset.

Note 6 – Long-Term Debt

The Cooperative has long-term debt due to Federal Financing Bank (FFB), National Rural Utilities Cooperative Finance Corporation (CFC), CoBank, ACB and National Cooperative Services Corporation (NCSC). Substantially all of the assets of the Cooperative are pledged as security for the long-term debt and the notes are subject to certain covenants.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Following is a summary of long-term debt at December 31:

	2024	2023
Fixed and variable notes payable due to FFB in quarterly installments of principal and interest with rates ranging from 1.2010% to 3.3140%, maturing through 2052	\$ 113,341,850	\$ 117,199,375
Fixed note payable due to CFC in quarterly installments of principal and interest at a rate of 2.55%, maturing 2035	67,052,336	72,704,840
Fixed note payable due to CFC in monthly installments of principal and interest at a rate of 2.760%, maturing December 31, 2060	23,579,920	24,226,770
Fixed note payable due to CoBank in monthly installments of principal and interest rates ranging from 2.90% to 3.33%, maturing through 2052	21,209,378	21,725,180
RUS/FFB advance payments (cushion of credit)	-	(474)
KRS 2 - Fixed note payable due to NCSC in quarterly installments of principal and interest at a rate of 4.650%, maturing 2039	11,855,638	12,552,760
Long-term debt	237,039,122	248,408,451
Less current maturities	(11,528,575)	(11,233,584)
Long-term debt, less current maturities	\$ 225,510,547	\$ 237,174,867

KRS Two has a loan with the NCSC, an affiliate of the CFC, to provide permanent financing for the solar project. Substantially all of the assets of KRS Two are pledged as security for the loan and the loan is subject to financial covenants. The Cooperative has provided NCSC with a guaranty of the indebtedness of KRS Two to NCSC.

Principal maturities of long-term debt for the next five years and thereafter are as follows:

2025	\$ 11,528,575
2026	11,847,571
2027	12,152,815
2028	12,519,049
2029	12,874,362
Thereafter	176,116,750
	\$ 237,039,122

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

Note 7 – Line-of-Credit

The Cooperative has a perpetual secured \$60,000,000 disaster line-of-credit, a perpetual unsecured \$5,000,000 line-of-credit for short-term financing, and a five-year unsecured \$20,000,000 line-of-credit for construction financing with CFC maturing on September 30, 2026, at variable interest rates ranging from 2.55% to 7.25% at December 31, 2024. The CFC disaster line-of-credit is secured by substantially all of the Cooperative assets. The CFC lines are subject to termination provisions and certain covenants. The total balance outstanding was \$0 at December 31, 2024 and 2023.

The Cooperative also has a one-year unsecured \$15,000,000 line-of-credit for working capital with CoBank at variable interest rate of 6.39% at December 31, 2024. The total balance outstanding was \$0 at December 31, 2024 and 2023.

Note 8 – Deferred Credits

Deferred credits consisted of the following at December 31:

	2024	2023
Rural economic development grant	\$ 1,928,697	\$ 1,910,995
Right of entry deposit	-	6,305
Customer advances for construction	5,219,209	5,563,330
Regulatory liability – scheduled plant maintenance	5,624,398	5,583,198
Total deferred credits	\$ 12,772,304	\$ 13,063,828

Note 9 – Asset Retirement Obligation (ARO)

KRS Two completed an ARO calculation with the assumption that the assets will be in service through the year 2044. The useful life expectations used in the calculations of the ARO are based on the assumption that operations will continue without deviation from historical trends. The ARO asset will be depreciated through 2044 on a straight-line basis and the ARO liability will be accreted through 2044 using a discount rate and effective interest method.

KRS One completed an ARO calculation with the assumption that the assets will be in service through the year 2040. The useful life expectations used in the calculations of the ARO are based on the assumption that operations will continue without deviation from historical trends. The ARO asset will be depreciated through 2040 on a straight-line basis and the ARO liability will be accreted through 2040 using a discount rate and effective interest method.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

The following table provides a reconciliation of the beginning and ending ARO liability at December 31:

	2024	2023
Balances at January 1	\$ 3,075,035	\$ 2,957,920
Accretion of ARO liability	123,061	117,115
Balances at December 31	\$ 3,198,096	\$ 3,075,035

Note 10 – Litigation, Commitments, and Contingencies

Litigation – In the normal course of business, the Cooperative is a 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.

Litigation arbitration – In 2021, KIUC was party to an arbitration with one of its suppliers. A judgement was issued in favor of the supplier. KIUC has appealed the arbitration. KIUC has appealed the arbitration and does not expect the arbitration award to have a material impact on its financials. No accrual has been made in the financials due to the uncertainty of the outcome as of December 31, 2024.

Fuel contract – As a result of the purchase of KE assets, Citizens assigned to the Cooperative a fuel supply contract with an international oil refining company that is renewable for 12-month periods unless terminated by the Cooperative or the supplier; 99% of the Cooperative's fuel is obtained through this supply contract. The price is adjusted monthly to equal a published price, as defined, plus other defined costs such as terminal and freight costs. Fuel costs under this contract for the years ended December 31, 2024 and 2023, were \$50.9 million and \$41.4 million, respectively.

Power supply – 55% of the Cooperative's power in 2024 is generated using diesel and naphtha generating units. In addition, the Cooperative maintains various power supply agreements to purchase power from hydroelectric, biomass, and PV projects. The terms of the agreements vary and include termination provisions.

Union contract – The Cooperative has an agreement with one union. As of December 31, 2024, 57% of the positions and 60% of the employees were covered by the union contract. The agreement expires in December 2027.

Operating leases – The Cooperative leases their headquarters under a noncancelable operating lease which expires in 2030 and contains options to extend the term up to an additional 15 years. The lease also includes an option to purchase the landlord's interest, as defined, in the year 2025. The lease obligation has been calculated through 2025.

The Cooperative also leases land for a service center which expires in 2040, with an option to extend the term up to an additional 30 years, for a total of 55 years. The lease obligation has been calculated through 2070.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

KRS One leases the land upon which their solar facility is located and a substation under a noncancelable operating lease which expires in 2040.

KRS Two leases the land upon which their solar facility is located under a noncancelable operating lease which expires in 2040 and contains an option to extend the term an additional five years. The lease has been calculated through 2044.

As of December 31, 2024, the future minimum lease commitments under these leases are as follows:

2025	\$ 1,468,570
2026	1,376,396
2027	1,427,184
2028	1,516,198
2029	1,421,596
Thereafter	<u>16,900,611</u>
Total future minimum lease payment	24,110,555
Less present value discount	<u>(7,816,733)</u>
Total lease liabilities	16,293,822
Less current portion	<u>(811,177)</u>
Long-term lease liability	<u><u>\$ 15,482,645</u></u>

Cash paid for amounts included in the measurements of lease liabilities	
Operating cash flow from operating leases	\$ 1,345,333
Weighted-average remaining lease term in years for operating leases	19.22
Weighted-average discount rate for operating leases	4.21%

In addition to the amounts above, the Cooperative is responsible for common area maintenance costs, real property taxes, and other reimbursable operating expenses. Rent expense for the years ended December 31, 2024 and 2023, was \$1,800,090 and \$1,730,434, respectively.

Note 11 – Pension Benefits

Effective November 1, 2002, 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. Withdrawal from the plan may result in the Cooperative having a significant obligation to the program. The Cooperative does not currently intend to withdraw from the plan and, accordingly, no provision has been included in the accompanying consolidated financial statements.

RS Plan disclosure information for the Retirement Security 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 multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the plan number is 333.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

A unique characteristic of a multiemployer plan compared to 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.

Plan information – The Cooperative's contributions to the RS Plan in 2024 and in 2023 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$4,018,208 in 2024 and \$3,660,674 in 2023. There have been no significant changes that affect the comparability of 2024 and 2023 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded at January 1, 2024 and 2023, based on the Pension Protection Act funding target and Pension Protection Act actuarial value of assets on those dates. Because the provisions of the Pension Protection Act do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

NRECA 401(k) plan – The NRECA 401(k) permits elective contributions up to 100% of the participant's salary to a maximum of \$19,500. These limits do not include certain catch-up provisions and provides the Cooperative will match 50% of the first 8% of employee base pay contributions. The Cooperative employer portion of the 401(k) plan contributions for 2024 and 2023 totaled \$626,298 and \$594,776, respectively.

Note 12 – Post-Retirement Benefits

The Cooperative's Retiree Welfare Benefit Plan (the Plan) and its associated trust, the KIUC Retiree Welfare Benefit Trust (the Trust), were adopted effective January 1, 2003. The Plan provides certain noncontributory medical (which includes a dollar cap, for which retirees pay back the Cooperative for amounts exceeding the cap), dental, vision, and life insurance benefits for retired employees, their beneficiaries, and covered dependents. Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid for the years ended December 31, 2024 and 2023, were \$260,240 and \$254,993, respectively. The measurement date for the current valuation is December 31, 2024.

Weighted-average assumptions used to determine the net periodic benefit cost for the year ended December 31, 2024:

- Discount rate: 5.55% and 4.85% as of December 31, 2024 and 2023, respectively
- Expected long-term return on plan assets: 4.58% (based on the ten-year performance of the funds, weighted by market value as of December 31, 2024)
- Health care cost trend rate assumed for next year: 6.25% for pre-age 65 and 4.50% medical and 5.75% drug for post-age 65

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

- Rate to which the cost trend rate is assumed to decline (the ultimate trend rate): 4.75% for pre-age 65 and 4.50% medical and 4.75% drug for post-age 65

	2024	2023
Net post-retirement benefit cost		
Interest cost	\$ 118,875	\$ 144,472
Expected return on plan assets	(134,871)	(106,116)
Recognized net actuarial expense	7,869	52,367
Net post-retirement benefit cost	\$ (8,127)	\$ 90,723
Accumulated post-retirement benefit obligation (APBO)		
APBO balance at the beginning of year	\$ (3,205,643)	\$ (3,185,539)
Interest costs	(118,875)	(144,472)
Actuarial (loss) gain	614,649	(171,727)
Benefits paid	257,556	296,095
APBO balance at the end of year	\$ (2,452,313)	\$ (3,205,643)
Reconciliation of funded status		
APBO	\$ (2,452,313)	\$ (3,205,643)
Assets funded	3,258,063	3,269,191
Accrued post-retirement funded status	\$ 805,750	\$ 63,548
Accumulated comprehensive other loss		
Unrecognized prior loss	\$ 945,406	\$ 1,076,791
Amortization of gains and losses	(7,869)	(52,367)
Actuarial (gain) loss	(723,643)	(79,018)
Accumulated other comprehensive loss	\$ 213,894	\$ 945,406

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid:

2025	\$ 249,494
2026	244,359
2027	240,332
2028	234,239
2029	228,105
2030-2034	987,074
	\$ 2,183,603

The Plan assets are held in the Trust and are invested in the Central Pacific Bank's Trust Division at December 31, 2024.

Kaua'i Island Utility Cooperative and Subsidiaries

Notes to Consolidated Financial Statements

The Plan assets are managed by a trustee and are authorized to be held in various equity and fixed income investments and cash equivalents. The trustee is not allowed to invest in real estate or any other investment other than those noted in the investment policy. The investing strategy is long-term with a focus on moderate volatility and moderate growth investments. All investments at December 31, 2024 and 2023, were Level 1 investments as outlined in the fair value hierarchy as they have quoted prices in active markets for identical assets. The following table shows the investment allocation for Plan assets:

	<u>2024</u>	<u>2023</u>
Cash and other accrued income	\$ 101,946	\$ 113,072
Mutual funds	1,864,708	1,857,215
Bonds	<u>1,291,409</u>	<u>1,298,904</u>
	<u>\$ 3,258,063</u>	<u>\$ 3,269,191</u>

Note 13 – Rate Action

The Cooperative has submitted an application for increase in rates with the HPUC. The Commission filed an interim decision and order on November 27, 2023. The interim rate design was effective on January 11, 2024. A final decision and order has not been rendered as of the date the consolidated financial statements were available to be issued.

Supplementary Information

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Balance Sheet
December 31, 2024

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
ASSETS					
ASSETS					
Utility plant					
Electric plant in service	\$ 536,289,976	\$ 35,187,324	\$ 39,124,034	\$ -	\$ 610,601,334
Right of use asset - operating lease	12,214,692	2,279,878	1,306,514	-	15,801,084
Electric plant acquisition cost	54,852,453	-	-	-	54,852,453
Less accumulated depreciation and amortization	<u>(337,853,842)</u>	<u>(11,624,831)</u>	<u>(15,738,319)</u>	<u>-</u>	<u>(365,216,992)</u>
Net electric plant in service	265,503,279	25,842,371	24,692,229	-	316,037,879
Construction work in progress	<u>10,277,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,277,336</u>
Net utility plant	<u>275,780,615</u>	<u>25,842,371</u>	<u>24,692,229</u>	<u>-</u>	<u>326,315,215</u>
Other property and investments					
Investments in subsidiary companies	20,343,006	-	-	(20,343,006)	-
Investments in associated organizations	1,985,691	15,461	12,116	-	2,013,268
Rural economic development loans	<u>1,965,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,965,795</u>
Total other property and investments	<u>24,294,492</u>	<u>15,461</u>	<u>12,116</u>	<u>(20,343,006)</u>	<u>3,979,063</u>
CURRENT ASSETS					
Cash and cash equivalents	38,920,357	305,130	4,865,213	-	44,090,700
Restricted cash and cash equivalents	322,969	-	-	-	322,969
Accounts and notes receivable, net	12,756,274	195,456	276,643	-	13,228,373
Accrued unbilled revenue	10,562,913	-	-	-	10,562,913
Energy rate adjustment clause	144,676	-	-	-	144,676
Fuel inventory	1,143,996	-	-	-	1,143,996
Materials and supplies	21,121,346	-	-	-	21,121,346
Other current assets	<u>1,517,807</u>	<u>49,717</u>	<u>43,227</u>	<u>-</u>	<u>1,610,751</u>
Total current assets	<u>86,490,338</u>	<u>550,303</u>	<u>5,185,083</u>	<u>-</u>	<u>92,225,724</u>
Post-retirement benefit asset	<u>805,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>805,750</u>
Deferred debits	<u>32,010,778</u>	<u>728,333</u>	<u>-</u>	<u>-</u>	<u>32,739,111</u>
	<u>\$ 419,381,973</u>	<u>\$ 27,136,468</u>	<u>\$ 29,889,428</u>	<u>\$ (20,343,006)</u>	<u>\$ 456,064,863</u>

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Balance Sheet
December 31, 2024

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
EQUITIES AND LIABILITIES					
EQUITIES					
Controlling equity interest	\$ 146,603,231	\$ (10,013,765)	\$ (2,232,394)	\$ 12,246,159	\$ 146,603,231
Noncontrolling equity interest	-	-	17,625,064	-	17,625,064
Total equities	<u>146,603,231</u>	<u>(10,013,765)</u>	<u>15,392,670</u>	<u>12,246,159</u>	<u>164,228,295</u>
LONG-TERM LIABILITIES					
Long-term debt	214,242,350	32,248,529	11,518,196	(32,498,528)	225,510,547
Operating lease obligation	11,641,705	2,478,374	1,362,566	-	15,482,645
	225,884,055	34,726,903	12,880,762	(32,498,528)	240,993,192
Asset retirement obligations	-	2,292,181	905,915	-	3,198,096
CURRENT LIABILITIES					
Current maturities of long-term debt	10,941,133	-	587,442	-	11,528,575
Accounts payable	7,142,388	23,628	84,933	-	7,250,949
Current maturities of operating lease obligation	756,587	32,950	21,640	-	811,177
Consumer deposits	1,433,888	-	-	-	1,433,888
Accrued employee compensation	2,671,276	-	-	-	2,671,276
Accrued taxes	9,864,765	-	-	-	9,864,765
Other current and accrued liabilities	1,312,346	74,571	16,066	(90,637)	1,312,346
Total current liabilities	<u>34,122,383</u>	<u>131,149</u>	<u>710,081</u>	<u>(90,637)</u>	<u>34,872,976</u>
Deferred credits	12,772,304	-	-	-	12,772,304
	<u>\$ 419,381,973</u>	<u>\$ 27,136,468</u>	<u>\$ 29,889,428</u>	<u>\$ (20,343,006)</u>	<u>\$ 456,064,863</u>

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Balance Sheet
December 31, 2023

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
ASSETS					
ASSETS					
Utility plant					
Electric plant in service	\$ 534,369,562	\$ 35,423,856	\$ 39,124,034	\$ -	\$ 608,917,452
Right of use asset - operating lease	12,880,796	2,388,621	1,113,457	-	16,382,874
Electric plant acquisition cost	54,852,453	-	-	-	54,852,453
Less accumulated depreciation and amortization	<u>(340,292,812)</u>	<u>(10,562,731)</u>	<u>(14,191,956)</u>	<u>-</u>	<u>(365,047,499)</u>
Net electric plant in service	261,809,999	27,249,746	26,045,535	-	315,105,280
Construction work in progress	<u>11,164,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,164,049</u>
Net utility plant	<u>272,974,048</u>	<u>27,249,746</u>	<u>26,045,535</u>	<u>-</u>	<u>326,269,329</u>
Other property and investments					
Investments in subsidiary companies	21,935,989	-	-	(21,935,989)	-
Investments in associated organizations	2,103,849	13,478	10,760	-	2,128,087
Rural economic development loans	<u>972,071</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>972,071</u>
Total other property and investments	<u>25,011,909</u>	<u>13,478</u>	<u>10,760</u>	<u>(21,935,989)</u>	<u>3,100,158</u>
CURRENT ASSETS					
Cash and cash equivalents	40,005,068	266,041	4,384,262	-	44,655,371
Restricted cash and cash equivalents	1,298,990	-	-	-	1,298,990
Accounts and notes receivable, net	14,054,062	126,976	225,807	-	14,406,845
Accrued unbilled revenue	8,743,081	-	-	-	8,743,081
Fuel inventory	1,559,984	-	-	-	1,559,984
Materials and supplies	20,722,734	-	-	-	20,722,734
Other current assets	<u>1,249,089</u>	<u>49,693</u>	<u>30,290</u>	<u>-</u>	<u>1,329,072</u>
Total current assets	<u>87,633,008</u>	<u>442,710</u>	<u>4,640,359</u>	<u>-</u>	<u>92,716,077</u>
Post-retirement benefit asset	<u>63,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,548</u>
Deferred debits	<u>37,451,664</u>	<u>774,333</u>	<u>-</u>	<u>-</u>	<u>38,225,997</u>
	<u>\$ 423,134,177</u>	<u>\$ 28,480,267</u>	<u>\$ 30,696,654</u>	<u>\$ (21,935,989)</u>	<u>\$ 460,375,109</u>

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Balance Sheet
December 31, 2023

	KIUC	KRS One	KRS Two Holdings	Eliminations	Consolidated
EQUITIES AND LIABILITIES					
EQUITIES					
Controlling equity interest	\$ 139,000,882	\$ (9,652,960)	\$ (1,997,041)	\$ 11,650,001	\$ 139,000,882
Noncontrolling equity interest	-	-	17,666,736	-	17,666,736
Total equities	<u>139,000,882</u>	<u>(9,652,960)</u>	<u>15,669,695</u>	<u>11,650,001</u>	<u>156,667,618</u>
LONG TERM LIABILITIES					
Loan	225,183,010	33,255,728	12,241,858	(33,505,729)	237,174,867
Operating lease obligation	12,384,637	2,482,331	1,137,649	-	16,004,617
Total long term debt	<u>237,567,647</u>	<u>35,738,059</u>	<u>13,379,507</u>	<u>(33,505,729)</u>	<u>253,179,484</u>
Asset retirement obligations	-	2,232,008	843,027	-	3,075,035
CURRENT LIABILITIES					
Current maturities of long-term debt	10,672,683	-	560,901	-	11,233,584
Accounts payable	8,249,951	23,423	71,101	-	8,344,475
Current maturities of operating lease obligation	618,559	30,294	25,385	-	674,238
Energy rate adjustment clause	644,475	-	-	-	644,475
Consumer deposits	1,302,837	-	-	-	1,302,837
Accrued employee compensation	2,518,252	-	-	-	2,518,252
Accrued taxes	8,470,966	-	-	-	8,470,966
Other current and accrued liabilities	1,024,097	109,443	147,038	(80,261)	1,200,317
Total current liabilities	<u>33,501,820</u>	<u>163,160</u>	<u>804,425</u>	<u>(80,261)</u>	<u>34,389,144</u>
Deferred credits	13,063,828	-	-	-	13,063,828
	<u>\$ 423,134,177</u>	<u>\$ 28,480,267</u>	<u>\$ 30,696,654</u>	<u>\$ (21,935,989)</u>	<u>\$ 460,375,109</u>

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Statement of Operations
Year Ended December 31, 2024

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
OPERATING REVENUES					
Residential	\$ 79,983,441	\$ -	\$ -	\$ -	\$ 79,983,441
Commercial and industrial	107,769,950	-	-	-	107,769,950
Public street and highway lighting	806,209	-	-	-	806,209
Irrigation	246,415	-	-	-	246,415
Sale for resale	-	2,626,432	2,417,064	(5,043,496)	-
Other operating revenues	482,384	-	-	-	482,384
Loss gross margin change in deferral	(3,881,617)	-	-	-	(3,881,617)
Total operating revenues	185,406,782	2,626,432	2,417,064	(5,043,496)	185,406,782
OPERATING EXPENSES					
Cost of power	105,686,006	610,681	458,953	(5,043,496)	101,712,144
Transmission – operation and maintenance	2,053,860	6,652	-	-	2,060,512
Distribution – operation and maintenance	7,188,933	10,317	-	-	7,199,250
Customer service	2,807,581	-	-	-	2,807,581
Administrative and general	25,985,024	15,688	18,045	-	26,018,757
Depreciation and amortization	14,881,365	1,358,564	1,546,363	-	17,786,292
Taxes	15,680,951	13,132	12,085	-	15,706,168
Accretion expense	-	60,173	62,888	-	123,061
Other interest expense	-	914,012	-	(914,012)	-
Total operating expenses	174,283,720	2,989,219	2,098,334	(5,957,508)	173,413,765
OPERATING MARGIN (LOSS) BEFORE INTEREST	11,123,062	(362,787)	318,730	914,012	11,993,017
INTEREST ON LONG-TERM DEBT	6,388,545	-	567,683	-	6,956,228
OPERATING MARGINS (LOSSES)	4,734,517	(362,787)	(248,953)	914,012	5,036,789
NONOPERATING MARGINS					
Interest income	2,648,122	-	-	(914,012)	1,734,110
Capital credits	94,507	1,983	1,355	-	97,845
Loss from subsidiaries	(596,159)	-	-	596,159	-
Other nonoperating income, net	171,723	-	-	-	171,723
Total nonoperating margins	2,318,193	1,983	1,355	(317,853)	2,003,678
NET MARGINS (LOSSES)	7,052,710	(360,804)	(247,598)	596,159	7,040,467
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	12,244	-	12,244
NET MARGINS (LOSSES) – COOPERATIVE	7,052,710	(360,804)	(235,354)	596,159	7,052,711
COMPREHENSIVE GAIN					
Postretirement benefit obligation gain	731,512	-	-	-	731,512
COMPREHENSIVE INCOME (LOSS) – COOPERATIVE	\$ 7,784,222	\$ (360,804)	\$ (235,354)	\$ 596,159	\$ 7,784,223

Kaua'i Island Utility Cooperative and Subsidiaries
Consolidating Statement of Operations
Year Ended December 31, 2023

	KIUC	KRS One	KRS Two Holdings	Eliminations	KIUC Consolidated
OPERATING REVENUES					
Residential	\$ 72,799,495	\$ -	\$ -	\$ -	\$ 72,799,495
Commercial and industrial	95,894,420	-	-	-	95,894,420
Public street and highway lighting	667,512	-	-	-	667,512
Irrigation	274,534	-	-	-	274,534
Sale for resale	-	2,385,152	2,518,080	(4,903,232)	-
Other operating revenues	461,907	-	-	-	461,907
Total operating revenues	170,097,868	2,385,152	2,518,080	(4,903,232)	170,097,868
OPERATING EXPENSES					
Cost of power	98,633,656	680,147	442,510	(4,903,232)	94,853,081
Transmission – operation and maintenance	1,331,558	2,655	-	-	1,334,213
Distribution – operation and maintenance	6,589,432	16,769	-	-	6,606,201
Customer accounts	2,426,903	-	-	-	2,426,903
Administrative and general	22,344,138	17,920	34,927	-	22,396,985
Depreciation and amortization	15,421,498	1,763,770	1,552,657	-	18,737,925
Taxes	14,433,304	11,983	12,651	-	14,457,938
Accretion expense	-	58,593	58,522	-	117,115
Other interest expense	-	940,350	-	(940,350)	-
Total operating expenses	161,180,489	3,492,187	2,101,267	(5,843,582)	160,930,361
OPERATING MARGIN (LOSS) BEFORE INTEREST	8,917,379	(1,107,035)	416,813	940,350	9,167,507
INTEREST ON LONG-TERM DEBT	6,738,418	-	593,024	-	7,331,442
OPERATING MARGINS (LOSSES)	2,178,961	(1,107,035)	(176,211)	940,350	1,836,065
NONOPERATING MARGINS (LOSSES)					
Interest income	2,956,045	-	-	(940,350)	2,015,695
Capital credits	195,581	1,299	955	-	197,835
Loss from subsidiaries	(1,272,478)	-	-	1,272,478	-
Other nonoperating income, net	202,555	-	-	-	202,555
Total nonoperating margins	2,081,703	1,299	955	332,128	2,416,085
NET MARGINS (LOSSES)	4,260,664	(1,105,736)	(175,256)	1,272,478	4,252,150
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	-	-	8,514	-	8,514
NET MARGINS (LOSSES) – COOPERATIVE	4,260,664	(1,105,736)	(166,742)	1,272,478	4,260,664
COMPREHENSIVE GAIN					
Postretirement benefit obligation gain	131,385	-	-	-	131,385
COMPREHENSIVE INCOME (LOSS) – COOPERATIVE	\$ 4,392,049	\$ (1,105,736)	\$ (166,742)	\$ 1,272,478	\$ 4,392,049

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
Kaua'i Island Utility Cooperative and Subsidiaries

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 Kaua'i Island Utility Cooperative and Subsidiaries (the Cooperative) as of and for the year ended December 31, 2024, and the related notes to the consolidated financial statements, which collectively comprise Kaua'i Island Utility Cooperative and Subsidiaries basic financial statements, and have issued our report thereon dated March 21, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Kaua'i Island Utility Cooperative and Subsidiaries 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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kaua'i Island Utility Cooperative and Subsidiaries internal control. Accordingly, we do not express an opinion on the effectiveness of Kaua'i Island Utility Cooperative and Subsidiaries 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

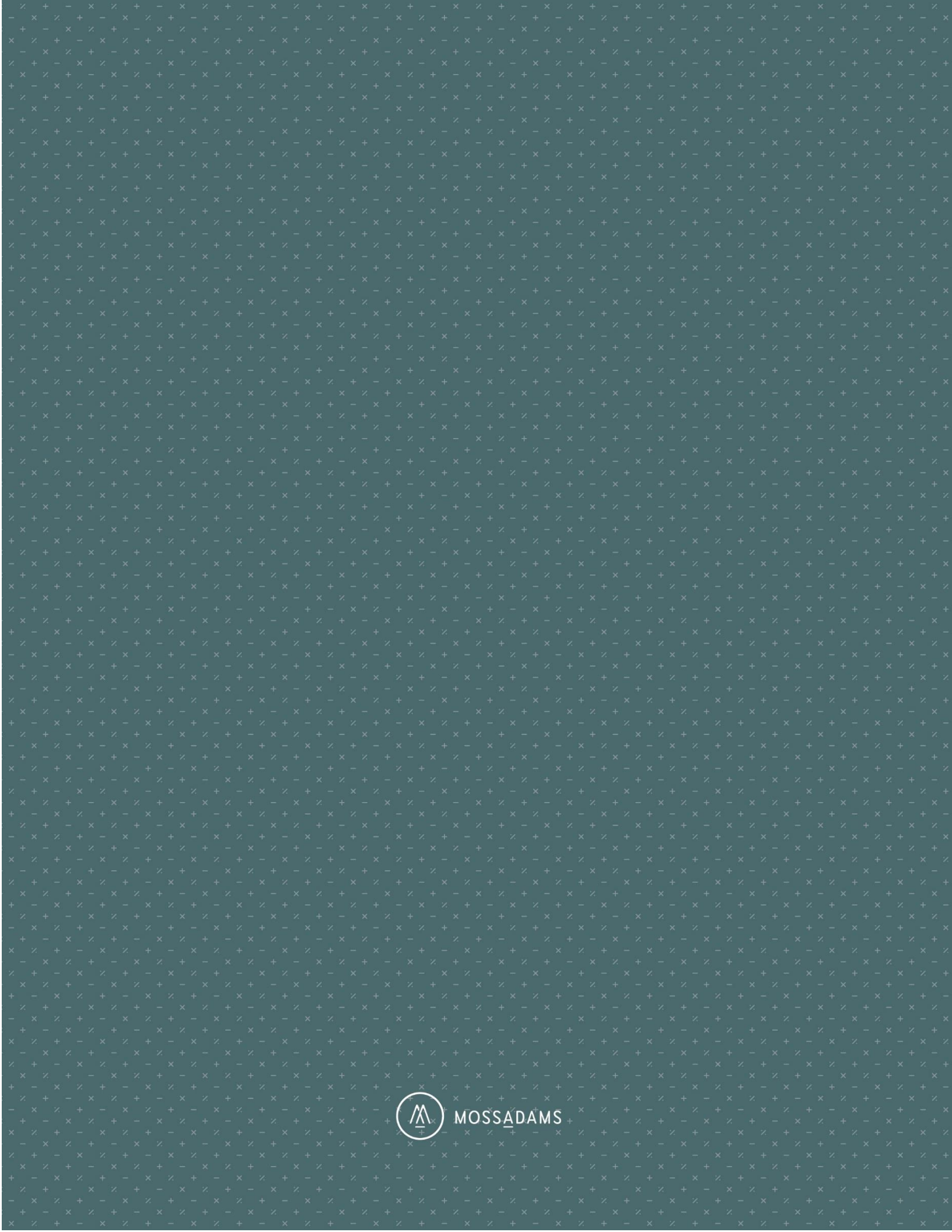
As part of obtaining reasonable assurance about whether Kaua'i Island Utility Cooperative and Subsidiaries consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Portland, Oregon
March 21, 2025



MOSSADAMS