

***ISLE AU HAUT
ELECTRIC POWER COMPANY***

***COMPARATIVE FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT***

***FOR THE FISCAL YEARS
ENDED DECEMBER 31, 2019 AND 2018***

James W. Wadman

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Isle au Haut Electric Power Company
Isle au Haut, Maine 04645

Report on the Financial Statements

We have audited the accompanying financial statements of the Isle au Haut Electric Power Company (a corporation), which comprise the Comparative Statement of Assets, Liabilities and Equity – Income Tax Basis as of December 31, 2019 and 2018, the related comparative Statement of Revenues and Expenses – Income Tax Basis and Retained Earnings – Income Tax Basis for the years then ended, including the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Corporation uses for income tax purposes; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and equity of the Isle Au Haut Electric Power Company, as of December 31, 2019 and 2018, and its revenue and expenses and changes in equity for the fiscal years then ended in accordance with the basis of accounting the Corporation uses for income tax purposes described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Corporation uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Respectfully submitted,

James W. Wadman, C.P.A.

James W. Wadman, C.P.A.
July 7, 2020

ISLE AU HAUT ELECTRIC POWER COMPANY
COMPARATIVE STATEMENT OF ASSETS, LIABILITIES AND EQUITY - INCOME TAX BASIS
DECEMBER 31, 2019 AND 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>	<u>Increase/ (Decrease)</u>
<u>Current Assets:</u>			
Cash - On Hand and On Deposit	\$2,468	\$39,564	(\$37,096)
Accounts Receivable	\$16,533	\$8,944	\$7,589
Fuel Inventory	\$952	\$384	\$568
Prepaid Income Taxes	\$907	\$3,385	(\$2,478)
Prepaid Expenses	\$4,101	\$2,415	\$1,686
<u>Total Current Assets</u>	<u>\$24,960</u>	<u>\$54,691</u>	<u>(\$29,731)</u>
<u>Fixed Assets:</u>			
Land, Buildings & Equipment	\$597,929	\$591,370	\$6,559
Less Accumulated Depreciation	(\$485,549)	(\$476,283)	(\$9,266)
<u>Net Fixed Assets</u>	<u>\$112,380</u>	<u>\$115,087</u>	<u>(\$2,707)</u>
<u>Other Assets:</u>			
Solar Array Project	\$244,196	\$217,880	\$26,315
Other Construction in Progress	\$47,581	\$40,344	\$7,237
<u>Total Other Assets</u>	<u>\$291,777</u>	<u>\$258,224</u>	<u>\$33,552</u>
<u>Total Assets</u>	<u>\$429,117</u>	<u>\$428,002</u>	<u>\$1,114</u>
<u>Liabilities & Stockholder Equity</u>			
<u>Current Liabilities:</u>			
Accounts Payable	\$17,312	\$15,180	\$2,132
<u>Total Liabilities</u>	<u>\$17,312</u>	<u>\$15,180</u>	<u>\$2,132</u>
<u>Stockholder Equity:</u>			
Preferred Stock - \$5 Par, 7,375 shares issued and outstanding	\$36,875	\$36,875	\$0
Additional Paid in Capital	\$1,989	\$1,989	\$0
Retained Earnings	\$372,941	\$373,959	(\$1,017)
<u>Total Stockholder Equity</u>	<u>\$411,805</u>	<u>\$412,823</u>	<u>(\$1,017)</u>
<u>Total Liabilities & Stockholder Equity</u>	<u>\$429,117</u>	<u>\$428,002</u>	<u>\$1,114</u>

See Accompanying Notes and Independent Accountant's Report.

ISLE AU HAUT ELECTRIC POWER COMPANY
COMPARATIVE STATEMENT OF REVENUES AND EXPENSES - INCOME TAX BASIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>% Sales</u>	<u>2018</u>	<u>% Sales</u>	<u>Increase/ (Decrease)</u>
<i>Revenue:</i>					
Electricity Sales	\$98,428	100.00%	\$97,502	100.00%	\$927
<u>Total Revenue</u>	<u>\$98,428</u>	<u>100.00%</u>	<u>\$97,502</u>	<u>100.00%</u>	<u>\$927</u>
<i>Cost of Sales:</i>					
Purchased Power	\$32,035	32.55%	\$28,241	28.96%	\$3,794
Fuel & Supplies	\$0	0.00%	\$1,369	1.40%	(\$1,369)
<u>Cost of Sales</u>	<u>\$32,035</u>	<u>32.55%</u>	<u>\$29,609</u>	<u>30.37%</u>	<u>\$2,426</u>
<u>Gross Profit</u>	<u>\$66,393</u>	<u>67.45%</u>	<u>\$67,892</u>	<u>69.63%</u>	<u>(\$1,499)</u>
<i>Other Income:</i>					
Other Income	\$789	0.80%	\$11,348	11.64%	(\$10,559)
Customer Advances for Construction	\$0	0.00%	\$12,230	12.54%	(\$12,230)
Contributions in Aid of Construction	\$20,012	20.33%	\$2,770	2.84%	\$17,242
Interest Income	\$295	0.30%	\$589	0.60%	(\$294)
	<u>\$21,096</u>	<u>21.43%</u>	<u>\$26,938</u>	<u>27.37%</u>	<u>(\$5,842)</u>
<i>Operating Expenses:</i>					
Repairs & Maintenance	\$7,445	7.56%	\$1,786	1.83%	\$5,659
Payroll	\$41,985	42.66%	\$37,611	38.57%	\$4,374
Payroll Taxes	\$3,887	3.95%	\$3,133	3.21%	\$754
Lic. & Fees	\$4,077	4.14%	\$3,888	3.99%	\$189
Electric Carrot Expense	\$627	0.64%	\$1,196	1.23%	(\$569)
Office Supplies & Expense	\$4,503	4.58%	\$2,757	2.83%	\$1,747
Professional Fees	\$4,816	4.89%	\$6,231	6.39%	(\$1,416)
Rent & Lease	\$1,462	1.49%	\$252	0.26%	\$1,210
Utilities & Telephone	\$3,335	3.39%	\$2,918	2.99%	\$418
Insurance	\$5,000	5.08%	\$5,484	5.62%	(\$484)
Depreciation & Amortization	\$9,266	9.41%	\$9,964	10.22%	(\$698)
Penalties and Interest	\$148	0.15%	\$237	0.24%	(\$88)
Bad Debts	\$1,390	1.41%	\$7,389	7.58%	(\$5,999)
Miscellaneous	\$565	0.57%	\$184	0.19%	\$382
<u>Total Operating Expenses</u>	<u>\$88,507</u>	<u>89.92%</u>	<u>\$83,029</u>	<u>85.16%</u>	<u>\$5,477</u>
<u>Net Income (Loss) Before Taxes</u>	<u>(\$1,017)</u>	<u>-1.03%</u>	<u>\$11,800</u>	<u>12.10%</u>	<u>(\$12,818)</u>
Federal Income Tax Expense	\$0	0.00%	\$0	0.00%	\$0
State Income Tax Expense	\$0	0.00%	\$22	0.02%	(\$22)
<u>Net Income (Loss) After Taxes</u>	<u>(\$1,017)</u>	<u>-1.03%</u>	<u>\$11,778</u>	<u>12.08%</u>	<u>(\$12,796)</u>

See Accompanying Notes and Independent Accountant's Report.

ISLE AU HAUT ELECTRIC POWER COMPANY
COMPARATIVE STATEMENT OF RETAINED EARNINGS -INCOME TAX BASIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>	<u>Increase/ (Decrease)</u>
<u>Retained Earnings Balance January 1,</u>	\$373,959	\$362,180	\$11,778
Net Income(Loss) for Year	<u>(\$1,017)</u>	<u>\$11,778</u>	<u>(\$12,796)</u>
<u>Retained Earnings Balance December 31,</u>	<u>\$372,941</u>	<u>\$373,959</u>	<u>(\$1,017)</u>

See Accompanying Notes and Independent Accountant's Report.

ISLE AU HAUT ELECTRIC POWER COMPANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 1 - Reporting Entity

The Isle Au Haut Electric Power 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. Stock ownership is not held equally among its owners. Presently, there are 7,375 preferred shares of stock outstanding with a \$5 par value.

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, State of Maine and Federal laws and regulations. The Company is a Maine corporation, incorporated in 1969.

Note 2 - Summary of Significant Accounting Policies

The financial statements are prepared on the basis of accounting used by the Company for Federal income tax reporting purposes. Consequently, depreciation is computed in accordance with the modified accelerated cost recovery system required by the Internal Revenue Code. This method differs from generally accepted accounting principles where depreciation is taken over the estimated useful lives of assets. The Company maintains its financial records on the accrual basis of accounting, which recognizes revenues when earned and expenses when they are incurred. Bad debts, if any, are recognized on the actual write-off method, as compared to the allowance method utilized under generally accepted accounting principles.

Note 3 - Capital Assets

Fixed assets are carried at historical cost. Depreciation is recorded on the fixed assets using estimated useful lives of 5 to 10 years for equipment, and 39 years for the buildings. No depreciation is taken on land. When applicable, the election to expense the purchase of certain assets, in accordance with Section 179 of the Internal Revenue Code, is made.

Fixed assets are comprised of the following categories:

Land and Buildings	\$164,126
Submarine Cable	\$115,191
Transmission Equipment	\$250,202
Vehicles	\$47,253
Software	\$4,875
Other Equipment	\$16,281
	<u>\$597,929</u>

Note 4 - Inventory

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

Note 5 - Cash and Cash Equivalents

The Company's cash assets are held in institutions insured by the federal government. Federal Deposit Insurance Corporation limitations on deposits are not exceeded at year end. The Company considers cash and cash equivalents to be cash and short term certificates of deposits with maturities of one year or less.

Note 6 - Disclosure of Certain Significant Risks and Uncertainties

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures during the period. Actual results could differ from those estimates, and any such differences may be material to the financial statements.

Note 7 - Subsequent Events

Management has evaluated subsequent events through July 6, 2020 the date which the financial statements were available to be issued.