Office of the Washington State Auditor
Pat McCarthy

December 31, 2018

Board of Directors
Northwest Open Access Network
Gig Harbor, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on Northwest Open Access Network's financial statements for the fiscal year ended December 31, 2017. The District contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

NORTHWEST OPEN ACCESS NETWORK

December 31, 2017 and 2016

MOSSADAMS

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Report of Independent Auditors

Board of Directors
Northwest Open Access Network

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Open Access Network (NoaNet), which comprise the statements of net position as of and for the years ended December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the 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 accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 do present fairly, in all material respects, the financial position of Northwest Open Access Network as of December 31, 2017 and 2016, and the respective changes in its net financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8, the schedule of changes in net pension liability and related ratios on page 33, and the schedule of contributions on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated June 1, 2018, on our consideration of Northwest Open Access Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Northwest Open Access Network's internal control over financial reporting and compliance.

Moss Adams LLP

Spokane, Washington
June 1, 2018

This discussion and analysis is designed to provide an overview of Northwest Open Access Network (NoaNet) financial activities for the years ended December 31, 2017, 2016, and 2015. This supplementary information should be read in conjunction with NoaNet's financial statements and notes to financial statements.

NoaNet is a nonprofit mutual corporation, incorporated on February 7, 2000, in the state of Washington. Its members include nine public utility districts and a joint operating agency, all of which are municipal corporations of the state of Washington. NoaNet is a registered Competitive Local Exchange Carrier (CLEC) in Washington and Oregon.

NoaNet is a wholesaler of communication transport services and provides open access, cost-based, high-speed broadband to underserved areas over its fiber optic network.

NoaNet's 10 members are committed both philosophically and financially to support NoaNet as an ongoing wholesale telecommunications service provider. Pursuant to a repayment agreement, the members and several former members were responsible for debt service payments on NoaNet's Revenue Bonds to the extent NoaNet did not have sufficient funds to make those payments after paying or providing for the cost of maintenance and operations. The Revenue Bonds were retired in 2016. The members also provide operating assessments approved by the Board. There were no members' debt service payments or assessments in 2017 or 2016. There are no such payments expected in 2018.

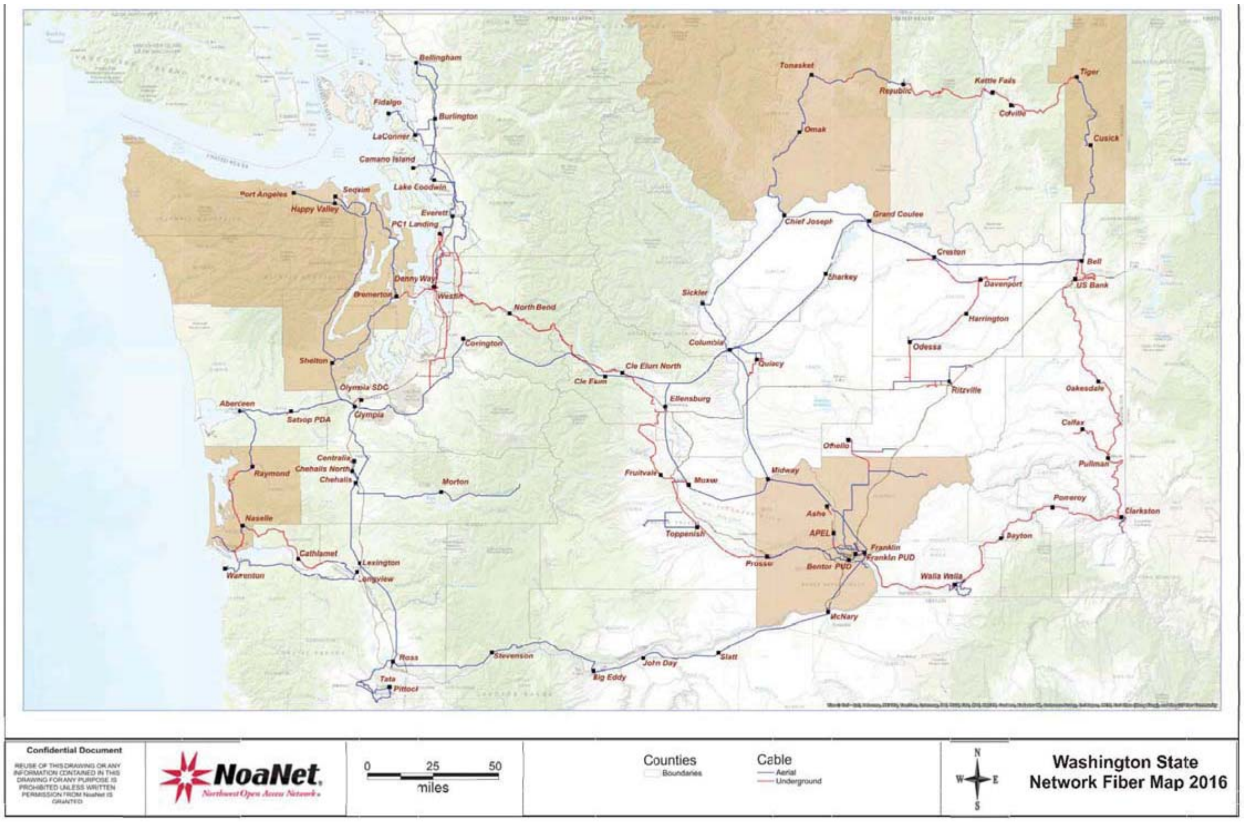
NoaNet believes it is favorably positioned considering the nature of the markets it serves and its member's continuing support and commitment to providing broadband to underserved regions of the State.

The Network

NoaNet's fiber optic network reaches all counties in the state of Washington. The network travels over its own facilities and those of the Bonneville Power Administration (BPA). In addition to the network facilities in Washington, NoaNet has nodes in Oregon, with an undersea connection to Alaska and Asia. During 2010, NoaNet was awarded two federal grants to expand their network into unserved and underserved areas of Washington. The expansion was successfully completed in 2014, resulting in the statewide network shown in Figure 1.

The Network (continued)

Figure 1



Financial Summary and Analysis

During 2017 and 2016, NoaNet's operating revenues decreased 6%. EBITDA decreased approximately 156% in 2017 as compared to a decrease of 64% in 2016. 2017 net position decreased compared to 2016. Increases in sales are projected (but not guaranteed) as a result of ongoing and expanded marketing and sales activities, some in coordination with NoaNet members and others.

In 2006, NoaNet established the High Capacity Network (HCN) System in connection with an Indefeasible Right of Use agreement to provide communication transport capacity entered into with a specific customer. This agreement terminated at the end of 2016.

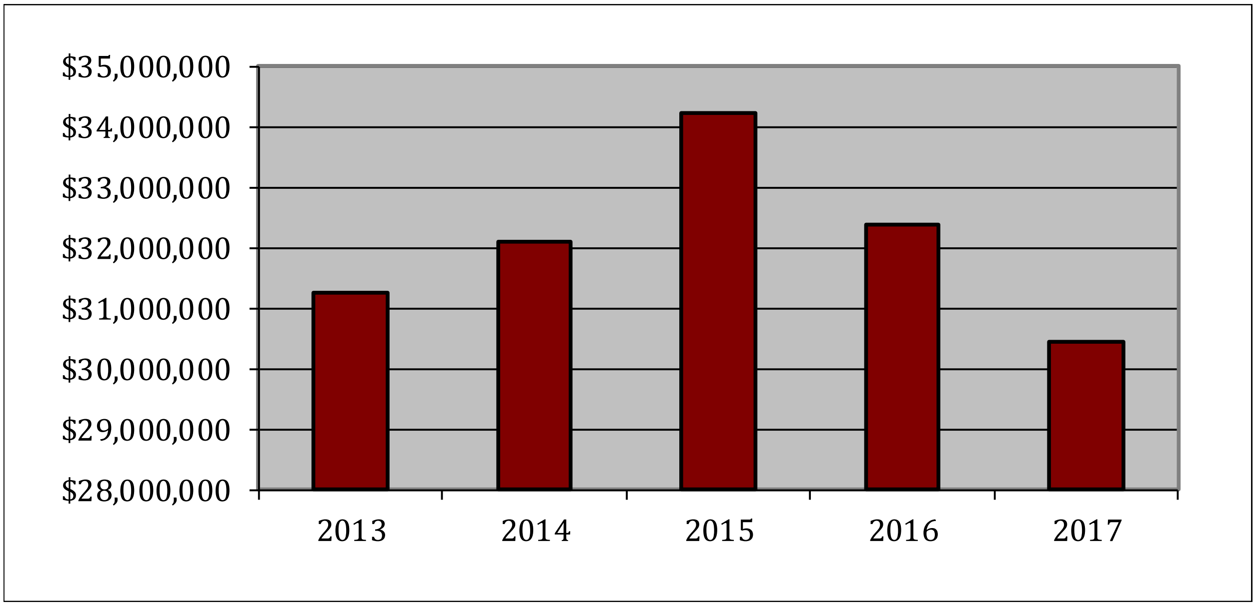
Selected Financial Data

Summary statements of revenues, expenses, and changes in net position

	2017	2016	2015
Operating revenues	$ 30,457,841	$ 32,379,954	$ 34,226,085
Operating expenses	(39,239,419)	(39,500,451)	(39,462,199)
Other expense	(570,260)	(86,137)	(153,998)
Change in net position	$ (9,351,838)	$ (7,206,634)	$ (5,390,112)

Summary Statements of Net Position	2017	2016	2015
Net property and equipment	$ 83,968,360	$ 89,702,769	$ 94,039,521
Other assets	5,701,621	6,199,255	10,053,298
Deferred outflows of resources	6,263,685	2,461,657	4,157,031
Total assets	$ 95,933,666	$ 98,363,681	$ 108,249,850
Long-term liabilities, net of current portion	$ 26,421,207	$ 17,613,782	$ 17,405,476
Other liabilities	4,019,157	5,904,759	8,792,600
Total liabilities	30,440,364	23,518,541	26,198,076
Net investment in capital assets	72,255,519	80,264,377	84,387,857
Restricted	-	-	1,436,850
Unrestricted	(6,762,217)	(5,419,237)	(3,772,933)
Total net position	65,493,302	74,845,140	82,051,774
Total liabilities and net position	$ 95,933,666	$ 98,363,681	$ 108,249,850

Operating Revenues



Operating revenue in 2017 decreased 6% over 2016 as a result of a decrease in one-time contributions from customers and termination of the HCN system. Revenue growth in 2016 and 2015 included significant one-time contributions from customers. Many of these contributions were aid in construction of fiber optic cable to cell towers. In 2017, the one-time contributions decreased compared to prior years as a result of fewer new tower contracts. However, as fiber to the tower construction in 2014, 2015, 2016, and 2017 was completed, growth in monthly recurring revenue was realized as the new services turned up around the state. In addition, NoaNet continued to experience growth in regional transport and access throughout 2016 and 2017. Access revenue increased 13% in 2017 as a result of on-going demand for high speed connectivity.

Operating expenses decreased by 1% in 2017 compared to 2016. Network support and access network expenses were lower in 2017 compared to 2016 due to cost saving measures. General and administrative costs were lower due to management's decision to suspend pension contributions for 2017. As a result, both EBITDA and Operating Income decreased in 2017 compared to 2016.

Capital Assets and Debt Activity

At December 31, 2017 and 2016, NoaNet had $144.5 and $142.3 million, respectively, invested in the network infrastructure, an increase from the prior year of 2%. The network book value, net of depreciation, amounted to $84 million at December 31, 2017, and $89.7 million at December 31, 2016. Capital expenditures included normal renewals and replacements, network expansion for new transport agreements and network upgrades. See Note 5 for further information.

Capital Assets and Debt Activity (continued)

At December 31, 2017 and 2016, NoaNet had $12.2 and $9.4 million in debt outstanding, respectively, which included line of credit debt and installment note debt. In 2017 and 2016, NoaNet made debt principal payments totaling $1 and $3.8 million, respectively. In June 2011, NoaNet refinanced their 2001 Revenue Bonds realizing savings of approximately $1,659,000 through the end of 2016. In June 2016, NoaNet made a bond interest payment of $41,850 and in September 2016 made a bond principal and interest payment of $2,831,850 to retire the bonds. See Notes 6 and 7 for further information.

As discussed above, NoaNet secured new business in the last three years related to wireless carrier transport. These contracts require significant capital construction. To secure this new business, NoaNet was required to capitalize portions of the projects up front, with a return over the contract term. In December 2014, NoaNet secured a $13,000,000 revolving line of credit (LOC) without member guarantees and retired prior lines of credit requiring member guarantees from 2012 and 2014. During 2014, NoaNet drew $5,771,729 from the revolving line of credit to retire these prior LOC's. In 2016 and 2015, NoaNet drew $3,370,000 and $2,000,000, respectively, on the revolving line of credit to fund capital projects. During March 2017, NoaNet secured a $10.2 million note payable to refinance the 2015 line of credit. Also during March 2017, NoaNet secured a $5 million nonrevolving line of credit for capital expenditures and a $2 million line of credit to be used to fund short-term operating expenditures.

Summary

During 2017 and 2016, the general economic climate for broadband in the underserved areas of the state of Washington was favorable resulting in increasing demand for broadband access. Broadband access has been a contributor to help diversify and enhance local economies. Agreements with major telecommunication providers resulted in awards of significant contracts. These agreements have extended high-speed broadband into the underserved areas of the state for distance learning, e government, telemedicine, and other public benefit purposes. It has also led to advanced cellular communications in many areas in the State. Implementation and expansion of new services to more communities through these contracts continues the growth of the network footprint throughout the state of Washington.

With the HCN contract terminating in 2016, NoaNet's revenue was negatively impacted in 2017. Also, revenue recognition on a significant sale was delayed unexpectedly until 2018. In addition, while revenue growth was anticipated in the regional provider segment, the rate of growth was slower than expected due to anticipated contract awards being put on hold by customers. The negative revenue impact from these events led to expense and capital reductions to maintain positive cash flow for debt service and other obligations. Fortunately, growth in the access network segment was higher than anticipated, and momentum is strong for improved revenue performance in 2018 as major projects appear to be back on track.

Outlook

In 2014, NoaNet successfully completed a four-year $180,000,000 federal broadband technology opportunities program (BTOP) grant to expand high-speed broadband throughout the state of Washington. NoaNet now has a point of presence in every county in the state, which has lowered barriers for Internet providers to invest and bring fast broadband service to unserved and underserved communities. High-speed Internet access is now available to community anchor institutions across the state – including community colleges, libraries, healthcare facilities, and government agencies – and lays the groundwork for bringing affordable broadband service to thousands of homes and businesses where broadband was not previously available.

With statewide access now available at virtually any broadband capacity, NoaNet is better able to meet our wholesale customers' connectivity needs as they expand. These customers include cellular providers, wireline carriers, cable companies, and Internet service providers, and the outlook for regional transport remains strong. In addition to purchasing telecom capacity to interconnect their properties, customers also purchase high-speed access to specific locations including schools, businesses, hospitals, public safety businesses, and government facilities. NoaNet's access network continues to grow as overall bandwidth demand increases.

Lastly, in 2015, new products and services under development in 2014 were released in response to demand for hosted services such as voice over Internet protocol, network storage and processing, physical access control, surveillance, cyber security, and high speed Internet. NoaNet is offering these new products on a localized, highly available, and low latency Internet platform aimed at specific vertical markets that include both agriculture and utilities. In addition, NoaNet is implementing Software Defined Wide Area Networking (SD-WAN) to expand geographic reach and improve speed and flexibility in service offerings. SD-WAN will be deployed in 2018 as the technology matures and customer requirements justify the investment. NoaNet continued to experience revenue growth in platform products in 2017, with more significant growth targeted for 2018 as more local and regional service providers expand marketing and sales efforts with the new product line.

Northwest Open Access Network
Statements of Net Position

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 905,418	$ 1,738,361
Accounts receivable, net	4,200,980	3,955,437
Prepaid and deferred expenses	577,146	378,921
Total current assets	5,683,544	6,072,719
NONCURRENT ASSETS		
Prepaid IRU agreement	18,077	126,536
Capital assets not being depreciated		
Land	13,785	13,785
Construction in progress	-	645,532
Capital assets being depreciated		
Equipment	137,214,171	134,382,840
Structures	7,230,668	7,230,668
Accumulated depreciation	(60,490,264)	(52,570,056)
Net capital assets being depreciated	83,954,575	89,043,452
Total noncurrent assets	83,986,437	89,829,305
Total assets	89,669,981	95,902,024
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	6,263,685	2,461,657
Total assets and deferred outflows of resources	$ 95,933,666	$ 98,363,681

LIABILITIES AND NET POSITION

	December 31, 2017	December 31, 2016
CURRENT LIABILITIES		
Accounts payable	$ 1,440,028	$ 3,356,732
Salaries and taxes payable	159,174	145,019
Current portion of accrued compensated absences	217,796	350,000
Accrued interest payable	33,836	-
Unearned revenue and other accrued liabilities	158,589	188,556
Current portion of notes payable	2,009,734	1,864,452
Total current liabilities	4,019,157	5,904,759
NONCURRENT LIABILITIES		
Notes payable	10,225,476	7,527,195
Unearned revenue	148,615	307,203
Accrued estimated PURMS liability	182,321	197,246
Accrued compensated absences	1,200,249	1,051,924
Accrued pension payable	14,664,546	8,530,214
Total noncurrent liabilities, net of current portion	26,421,207	17,613,782
Total liabilities	30,440,364	23,518,541
NET POSITION		
Net investment in capital assets	72,255,519	80,264,377
Unrestricted	(6,762,217)	(5,419,237)
Total net position	65,493,302	74,845,140
Total liabilities and net position	$ 95,933,666	$ 98,363,681

See accompanying notes.

Northwest Open Access Network
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31, 2017	2016
OPERATING REVENUES		
Regional service providers	$ 17,287,586	$ 18,921,731
Local service providers	523,337	818,775
Access revenues	8,288,314	7,323,414
Network coordinated services	2,591,325	2,548,498
Nonrecurring charges	1,767,279	2,767,536
Total operating revenues	30,457,841	32,379,954
OPERATING EXPENSES	39,239,419	39,500,451
OPERATING LOSS	(8,781,578)	(7,120,497)
NONOPERATING REVENUES (EXPENSES)		
Interest income	9,496	11,683
Interest expense and related amortization	(584,924)	(331,468)
Other income	5,168	233,648
Total nonoperating loss	(570,260)	(86,137)
Decrease in net position	(9,351,838)	(7,206,634)
NET POSITION, beginning of year	74,845,140	82,051,774
NET POSITION, end of year	$ 65,493,302	$ 74,845,140

See accompanying notes.

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from customers	$ 29,863,956	$ 31,442,823
Cash paid to suppliers	(23,704,610)	(23,574,642)
Cash paid to employees	(6,896,131)	(6,361,568)
Taxes paid	(217,498)	(233,922)
Net cash from operating activities	(954,283)	1,272,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Other income	5,168	233,648
Interest received	9,496	11,683
Net cash from investing activities	14,664	245,331
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Borrowings on line of credit, net	8,996,740	3,370,000
Borrowings on notes payable	10,200,000	-
Payments on notes payable	(985,801)	(13,409)
Payments on line of credit	(15,367,378)	(274,189)
Payments on bonds	-	(2,790,000)
Interest paid	(551,086)	(338,443)
Cash paid for purchase of property and equipment	(2,185,799)	(3,699,492)
Net cash from capital and related financing activities	106,676	(3,745,533)
CHANGE IN CASH AND CASH EQUIVALENTS	(832,943)	(2,227,511)
CASH AND CASH EQUIVALENTS, beginning of year	1,738,361	3,965,872
CASH AND CASH EQUIVALENTS, end of year	$ 905,418	$ 1,738,361

See accompanying notes.

Northwest Open Access Network
Statements of Cash Flows

	Years Ended December 31, 2017	Years Ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	$ (8,781,578)	$ (7,120,497)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	7,920,208	8,036,244
Change in assets and liabilities		
Accounts receivable	(245,544)	1,253,433
Prepaid expenses	(133,240)	329,624
Accounts payable	(1,873,229)	102,591
Unearned revenue and other accrued liabilities	5,961,128	(1,085,989)
HCN unearned revenue	-	(1,938,089)
Deferred outflows of resources	(3,802,028)	1,695,374
Net cash from operating activities	$ (954,283)	$ 1,272,691

See accompanying notes.

Note 1 – Nature of Organization and Operations

Northwest Open Access Network (NoaNet), a Washington nonprofit mutual corporation, was incorporated February 2000. NoaNet consists of the Telecommunications System and, beginning in 2006, the High Capacity Network (HCN) System.

The Telecommunications System provides a broadband communication backbone, primarily over public benefit fibers licensed from Bonneville Power Administration (BPA) (see Note 8) throughout Washington State (State) for assisting its members in providing high speed telecommunication services to customers and in the efficient management of load, conservation, and acquisition of electric energy, as well as other purposes. In addition, the Telecommunications System conducts business on a wholesale basis with unrelated commercial and government entities. The fiber optic network began commercial operation January 2001.

The HCN System was formed in connection with an IRU agreement to provide communication transport capacity entered into with a specific customer. As of December 31, 2017 and 2016, the assets, liabilities, operations, and cash flows of the HCN System are included for financial reporting purposes with the Telecommunications System.

NoaNet is governed by a Board of Directors consisting of 10 individuals selected from the 10 members. NoaNet's members consist of Washington Public Utility Districts and Energy Northwest, a joint operating agency.

Note 2 – Summary of Significant Accounting Policies

Reporting entity – The financial reporting entity consists of NoaNet and component units. Component units are legally separate organizations for which NoaNet is financially accountable and other organizations for which NoaNet is not accountable, but for which the nature and significance of their relationship with NoaNet are such the exclusion would cause NoaNet's financial statements to be misleading or incomplete. Based upon this criterion, NoaNet has no component units.

Basis of accounting and presentation – The accounting policies of NoaNet are in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to proprietary funds of governments. NoaNet uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

NoaNet distinguishes operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with NoaNet's principal ongoing operations. The principal operating revenues of NoaNet are charges to customers for telecommunications services. Operating expenses for NoaNet include costs to operate and maintain the telecommunications systems, customer service, marketing, administration, depreciation and business taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2 – Summary of Significant Accounting Policies (continued)

Cash equivalents – NoaNet considers all highly liquid investment securities with a maturity of three months or less to be cash equivalents.

Accounts receivable – Accounts receivable are recorded when invoices are issued and written off when they are determined to be uncollectible. Credit is extended to customers generally without collateral requirements. The allowance for doubtful accounts is estimated based on NoaNet's historical losses, review of specific problem accounts, existing economic conditions, and the financial stability of its customers. Generally, NoaNet considers accounts receivable past due after 30 days. The allowance for doubtful accounts was $150,000 at December 31, 2017 and 2016.

Property and equipment – Property and equipment are stated at cost. Cost includes contracted services, direct labor and materials, interest capitalized during construction, and indirect charges for engineering, supervision, and other similar overhead items. Expenditures for normal repairs and maintenance are charged to operations as incurred; renewals, replacements, and betterments are capitalized ($1,000 capitalization threshold). NoaNet has provided for depreciation using the straight-line method over the estimated useful lives of the assets ranging from 3 to 20 years.

Fiber optic network assets include rights of way, conduit, fiber, shelters, and point of presence racks. Operating equipment includes network equipment and other equipment necessary to operate the network.

NoaNet’s policy is to depreciate and amortize its long-lived assets over their remaining useful lives and to write down such assets if the net carrying value is not recoverable from future cash flows. The assessment as to whether a write-down is required is based on NoaNet’s estimates of future cash flows and NoaNet’s assumptions about the use of assets. There were no write-downs in 2017 or 2016.

Prepaid IRU – In 2007, NoaNet’s HCN System entered into a 10-year IRU agreement with a third party that is being amortized to expense on a straight-line basis over the term of the agreement. The HCN System was terminated effective December 31, 2016.

Compensated absences – NoaNet accrues accumulated unpaid vacation benefits as the obligation is incurred. The accrued liability for unpaid vacation leave at December 31, 2017 and 2016, was $1,418,045 and $1,401,924, respectively. Of these amounts, it is estimated that $217,796 and $350,000 will be paid out within one year of December 31, 2017 and 2016, respectively.

Unearned revenue – Unearned revenue represents unearned prepayments received from IRU or other long-term service agreements. These prepayments are amortized to operating revenue in equal monthly installments over the term of the agreements as the services are provided.

Note 2 – Summary of Significant Accounting Policies (continued)

Revenue recognition – Revenue is recognized over the period the service is provided based upon contracted rates and port readings of traffic (megabytes of data) and billed at the 95th percentile to account for anomalies or by contractual agreements. Nonrecurring charges consist of connection fees and project management services and are recognized when the service is established.

IRU agreements are accounted for as operating leases or service arrangements depending on whether the customer has the exclusive right to use the assets. Revenue is recognized on both operating leases and service arrangements on a straight-line basis over the term of the contract.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of NoaNet's Pension Plan (NPP), and additions to/deductions from NPP's fiduciary net position have been determined on the same basis as they are reported by NPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported a fair value.

Net position – Net position consists of the following components:

Net investment in capital assets – This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and notes that are attributable to the acquisition, construction, or improvement of those assets. Capital assets include $93.1 million of BTOP assets on which restrictions have been placed on use and ability to sell.

Restricted – This component of net position consists of net assets on which constraints are placed as to their use.

Unrestricted – This component of net position consists primarily of cumulative operating activity, member payments and bonds used to finance operating activities.

Marketing expense – Marketing costs are expensed as incurred. Total marketing expense was $1,436,421 and $1,671,139 for the years ended December 31, 2017 and 2016, respectively.

Income taxes – NoaNet is a nonprofit mutual corporation exempt from federal income taxes. Any income accrues to the members, which are political subdivisions of the state of Washington.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Note 2 – Summary of Significant Accounting Policies (continued)

Accounting changes and reclassifications – Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Certain reclassifications have been made to the 2016 financial statements to be in accordance with the 2017 presentation with no impact on the previously reported change in net position.

Note 3 – Cash and Investments

NoaNet maintains cash and investments in fund accounts in accordance with bond resolutions and Board authorization and reports at cost, which approximates fair market value. Descriptions of these fund account types are as follows:

Revenue fund – Used to account for cash and investments set aside for short-term investments as designated by the Board.

Bond reserve fund – Used to account for restricted cash and investments required under the Bond Indenture of Trust for future payment of principal and interest on debt. During 2016, this fund was retired when the bonds were paid off.

HCN fund – Used to account for restricted cash and investments required under the HCN contract. This fund was retired in 2016.

Note 3 – Cash and Investments (continued)

As of December 31, 2017, NoaNet held the following cash and investments measured at amortized cost:

Investment Type	Carrying Value	Weighted-Average Maturity	% of Portfolio
Cash	$ 176,353	N/A	19.5%
Local government investment pool	729,065	60 days	80.5%
Total cash and cash equivalents and bond reserve investments	$ 905,418		100.0%

As of December 31, 2016, NoaNet held the following cash investments measured at amortized cost:

Investment Type	Carrying Value	Weighted-Average Maturity	% of Portfolio
Cash	$ 868,665	N/A	50.0%
Local government investment pool	869,696	60 days	50.0%
Total cash and cash equivalents and bond reserve investments	$ 1,738,361		100.0%

The “weighted-average maturity” calculation assumes that all investments are held until maturity.

The Washington State Local Government Investment Pool (LGIP) is an investment vehicle operated by the Washington State Treasurer, offering governmental agency investors the economies of scale available from a multi-billion-dollar pooled fund investment portfolio. As of December 31, 2017, LGIP investments include primarily U.S. Agency Securities, U.S. Treasury Securities and Repurchase Agreements. Assets held in the LGIP are invested in a manner consistent with the U.S. Securities and Exchange Commission’s rule 2a-7 of the Investment Company Act of 1940. NoaNet records these investments at amortized cost.

NoaNet must give notice to the LGIP if they plan to withdraw over $1 million on the same day. The LGIP may suspend withdrawals or liquidate if the difference between the amortized cost per share and the market net asset value per share results in material dilution or other unfair results. The LGIP may suspend redemptions if the New York Stock Exchange suspends trading or closes, if the U.S. bond markets are closed, and if the Securities and Exchange Commission declares an emergency.

Interest rate risk – NoaNet does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. However, investment maturities are generally limited to less than two years and the State Treasurer’s LGIP has a weighted average portfolio maturity of less than 60 days.

Note 3 – Cash and Investments (continued)

Custodial risk – Custodial risk is that, in the event of the failure of the counterparty, NoaNet will not be able to recover the value of its investments that are in possession of an outside party.

In accordance with the Revised Code of Washington (RCW), NoaNet bond resolution and NoaNet internal investment policies, all investments are direct obligations of the U.S. Government or its Agencies, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the State of Washington.

NoaNet's cash deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). NoaNet intends to hold time deposits and securities until maturity.

Credit risk – The Office of the State Treasurer administers the LGIP, a $10-$16 billion fund that invests in money on behalf of over 530 participants including cities, counties, towns, special taxing districts, community colleges and universities, state agencies, and other public bodies. The LGIP is a voluntary pool that provides its participants the opportunity to benefit from the economies of scale inherent in pooling in order to achieve a higher investment yield than might otherwise be available to them. The LGIP is designed to be a conservatively managed, highly liquid money market fund. The LGIP is restricted to investments with maturities of 762 days or less, and the average life is not allowed to exceed 120 days. Permissible investments include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposit issued by qualified State depositories. Ratings for the individual investments are not available.

Note 4 – Status of Operations

In 2000, NoaNet was organized to serve a unique niche in the telecommunications industry focusing on delivery of fiber optic based broadband access to underserved areas of Washington State. Today, member networks have been built such that NoaNet's footprint extends into many counties in the State. The operating platform is open access and services reflect cost-based pricing as NoaNet is organized as a nonprofit entity. NoaNet has continued to expand its offerings to include network coordinated services to its members such as network element monitoring, operations, sales, and administrative services.

Note 5 – Property and Equipment

Property and equipment activity for the year ended December 31, 2017, was as follows:

	2016	Additions	Close-outs/ Other	2017
Capital assets not being depreciated				
Land	$ 13,785	$ -	$ -	$ 13,785
Construction WIP - Core	645,532	2,185,799	(2,831,331)	-
Total capital assets not being depreciated	659,317	2,185,799	(2,831,331)	13,785
Capital assets being depreciated				
Equipment	134,382,840	2,831,331		137,214,171
Structures	7,230,668	-	-	7,230,668
Total capital assets being depreciated	141,613,508	2,831,331	-	144,444,839
Accumulated depreciation	52,570,056	7,920,208	-	60,490,264
Total capital assets being depreciated, net	89,043,452			83,954,575
Net property and equipment	$ 89,702,769			$ 83,968,360

Property and equipment activity for the year ended December 31, 2016, was as follows:

	2015	Additions	Close-outs/ Other	2016
Capital assets not being depreciated				
Land	$ 13,785	$ -	$ -	$ 13,785
Construction WIP - Core	1,576,706	3,699,492	(4,630,666)	645,532
Total capital assets not being depreciated	1,590,491	3,699,492	(4,630,666)	659,317
Capital assets being depreciated				
Equipment	129,752,174	4,630,666		134,382,840
Structures	7,230,668	-	-	7,230,668
Total capital assets being depreciated	136,982,842	4,630,666	-	141,613,508
Accumulated depreciation	44,533,812	8,036,244	-	52,570,056
Total capital assets being depreciated, net	92,449,030			89,043,452
Net property and equipment	$ 94,039,521			$ 89,702,769

Indefeasible right of use agreement – Certain of NoaNet's assets support an IRU agreement accounted for as an operating lease (see Note 11). These assets amounted to approximately $6.5 million at December 31, 2017 and 2016.

Construction in progress – Construction work in progress represents expenses to date on projects for which outstanding commitments total $0 and $2,349,330 as of December 31, 2017 and 2016, respectively.

Note 6 – Long-Term Debt

2011 Revenue Refunding Bonds – In July 2011, NoaNet issued $13,165,000 in Telecommunications Network Revenue Refunding Bonds. Proceeds from the bonds were used to refund all of NoaNet's outstanding 2001 Telecommunications Network Revenue Bonds and to pay costs of issuance of the bonds. Interest on the bonds was payable semi-annually each June 1 and December 1. Principal of the bonds was payable annually on December 1; from December 1, 2012, through December 1, 2016. The bonds were retired in 2016.

The members and several former members entered into a Repayment Agreement under which, they were responsible for debt payments to the extent NoaNet did not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations.

The bond resolution required the establishment and maintenance of bond proceeds, interest, and reserve fund accounts, the purpose of which was to provide additional security as well as scheduled debt service payments. The reserve fund was maintained throughout the term of the bonds, in investments as permitted by the resolution. This fund was closed in 2016 when the bonds were retired.

2015 Line of Credit – In December 2014, NoaNet secured a $13,000,000 revolving LOC without member guarantees and retired both the 2012 and 2014 lines on December 31, 2014. NoaNet drew $5,771,729 from the revolving LOC to retire the prior LOC's in 2014. During 2016 and 2015, NoaNet drew $3,370,000 and $2,000,000, respectively, on the LOC in response to capital financing requirements related to the various service contracts. The note bears interest either at a fluctuating rate per annum determined by the Bank to be 2.25% above the Daily One Month LIBOR Rate in effect from time to time or at a fixed rate per annum determined by the Bank to be 2.25% above LIBOR in effect the first day of the applicable LIBOR Period. Rate options are determined by NoaNet. At December 31, 2017, NoaNet has selected the fluctuating Daily One Month LIBOR Rate plus 2.25%. The line matures on April 1, 2021, is collateralized by NoaNet's net revenues, and is in a junior lien position to the Telecommunications Network Revenue Bonds (See Notes 6 and 7). The line was refinanced in March 2017.

2017 $10.2M Note Payable – In March 2017, NoaNet secured a $10,200,000 note payable without member guarantees. Proceeds were used to retire the 2015 LOC, fund capital expenditures, and to pay issuance costs of the note. The note bears interest at 4.4% and is payable in quarterly installments of interest and principal. The note matures on March 1, 2024, is collateralized by NoaNet's net revenues, and is subject to certain provisions and covenants imposed by the bank. NoaNet was in compliance with all provisions and covenants during 2017. The note is subject to a pre-payment penalty of 0.5% of the outstanding balance of the note if refinanced within five years.

Note 6 – Long-Term Debt (continued)

2017 $5M Capital Line of Credit – In March 2017, NoaNet secured a $5,000,000 nonrevolving LOC without member guarantees to fund capital financing requirements related to various service contracts. During 2017, NoaNet drew $2,280,000 on the LOC in fund capital expenditures related to service contracts. The LOC bears interest at the bank's fully floating index rate minus 0.5%. Interest is payable each month and the interest rate as of December 31, 2017, was 3.75%. The line matures September 1, 2018, is collateralized by NoaNet's net revenues, and can be converted to a five-year term note at maturity if NoaNet is in compliance with certain provisions and covenants imposed by the bank. NoaNet was in compliance with all provisions and covenants during 2017. (See Notes 6 and 7).

2017 $2M Operating Line of Credit – In March 2017, NoaNet secured a $2,000,000 revolving LOC without member guarantees to fund short-term operating requirements. As of December 31, 2017, the balance of the line was $700,000. The line of credit bears interest at the bank's fully floating index rate minus 0.5%. Interest is payable each month and the interest rate as of December 31, 2017, is 3.75%. The line matures on April 1, 2019, is collateralized by NoaNet's net revenues, and may be extended up to five times for twelve months if NoaNet is in compliance with all loan provisions and covenants during the term of the line. NoaNet was in compliance with all provisions and covenants during 2017 (See Notes 6 and 7).

Vehicle Loans – In 2013, NoaNet financed, at an interest rate of 2.99%, the purchase of two vehicles. The principal amount outstanding was $27,195 and $41,010 at December 31, 2017 and 2016, respectively. The balance is due in 72 equal monthly payments that commenced November 24, 2013.

NoaNet has established covenants that it shall assess its members for their percentage share of principal and interest on the notes to the extent that NoaNet does not have sufficient funds to pay the notes after paying or providing for cost of maintenance and operations of NoaNet.

Scheduled debt service payments on principal and interest are as follows:

	Principal	Interest
2018	$ 2,009,734	$ 502,246
2019	1,838,613	407,581
2020	1,886,954	328,988
2021	1,952,694	246,148
2022	2,020,589	161,154
Thereafter	2,526,626	77,754
	$ 12,235,210	$ 1,723,871

Note 7 – Long-term Liability Activity

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	2016	Additions	Reductions	2017	Due Within One Year
2017 Note payable	$ -	$ 10,200,000	$ 971,986	$ 9,228,014	$ 1,295,501
2017 Line of credit	-	2,280,000	-	2,280,000	-
2017 Line of credit	-	2,354,000	1,654,000	700,000	700,000
2015 Line of credit	9,350,638	4,362,740	13,713,378	-	-
2014 Toyota Tacoma	17,638	-	6,056	11,582	6,239
2014 Toyota Tundra	23,372	-	7,759	15,613	7,994
Unearned revenue	495,759	-	188,555	307,204	158,589
Accrued personal leave	1,401,924	366,121	350,000	1,418,045	217,796
Accrued employee benefits	197,246	-	14,925	182,321	-
	$ 11,486,577	$ 19,562,861	$ 16,906,659	$ 14,142,779	$ 2,386,119

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	2015	Additions	Reductions	2016	Due Within One Year
2011 Revenue bonds	$ 2,790,000	$ -	$ 2,790,000	$ -	$ -
2015 Line of credit	6,254,827	3,370,000	274,189	9,350,638	1,850,637
2014 Toyota Tacoma	23,516	-	5,878	17,638	6,056
2014 Toyota Tundra	30,902	-	7,530	23,372	7,759
Unearned revenue	684,316	-	188,557	495,759	188,556
Accrued personal leave	1,182,342	219,582	-	1,401,924	350,000
Accrued employee benefits	-	197,246	-	197,246	-
	$ 10,965,903	$ 3,786,828	$ 3,266,154	$ 11,486,577	$ 2,403,008

Note 8 – Operating Leases and License

NoaNet maintains a long-term operating lease agreement with the Bonneville Power Administration (BPA) to lease property for the placement of regenerator huts and appurtenant cables, vaults and devices. NoaNet also maintains a long-term license agreement with BPA to access public benefit fibers and commercial fibers along a 1,279-mile route in the Pacific Northwest. This license includes annual fiber fees and maintenance charges. The BPA agreements will expire in 2019 unless extended by mutual agreement. Expenses incurred under these agreements were $1,952,603 and $1,962,039 for the years ended December 31, 2017 and 2016, respectively.

In addition, NoaNet maintains several agreements with telecommunication providers for connectivity, dark fiber, equipment rooms, and transport services that require payment of monthly charges based upon usage or fixed fee arrangements. Certain leases, including renewal options and additional monthly charges, may be incurred for the use of capacity above the amounts contracted in the agreements. Expenses incurred under these agreements were $13,602,528 and $14,159,110 for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments for the above leases and license are as follows:

2018	$ 2,335,525
2019	2,320,715
2020	53,400
2021	35,600
2022	-
	$ 4,745,240

Note 9 – Retirement Plans

Plan description – NoaNet maintains a single-employer defined benefit pension plan (Plan) covering all eligible employees. An eligible employee must have attained the age of 21 and completed one year of eligible service. Benefits are fully vested at six years of vesting service.

Plan trustee – The Noanet Pension Plan's trustee is appointed by the Employer and is currently Dave Spencer, CEO and Paul Harding, CFO.

Benefits provided – NoaNet provides retirement, disability, and death benefits. Retirement benefits for eligible employees are calculated as 2% of average annual compensation for each year of credited service after May 1, 2004, plus benefits accrued prior to May 1, 2004. Eligible employees with 5 years of participation are eligible for normal retirement at age 65. The trust agreement allows the Employer to amend the plan subject to the limitations of the trust document. Post May 1, 2004, benefit terms provide for a 3% annual cost-of-living adjustment to each employee's retirement allowance subsequent to the employee's retirement date. In January 2003, certain employees were transferred to NoaNet Oregon, a prior affiliate of NoaNet. The Plan was amended to freeze the benefits for these employees of NoaNet Oregon with additional years of service considered in the calculation of vesting as applicable.

Note 9 – Retirement Plans (continued)

Employees covered by benefit terms – At December 31, 2017 and 2016, the following employees were covered by the benefit terms:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	2	2
Inactive employees entitled to but not yet receiving benefits	18	15
Active employees	47	45
	67	62

Contributions – All contributions are paid by NoaNet. Annual contributions are based upon actuarial calculations performed by an independent actuary. The actuarial cost method used is the entry age normal cost method, which determines a current year's cost or "normal cost" as the total of each participant's annual amount necessary to fund the projected benefit over a level percentage of compensation from the date of hire to the date of anticipated retirement. Under this method, the initial liability and subsequent changes or actuarial gains and losses are amortized over a specified period. For the years ended December 31, 2017 and 2016, NoaNet's average contribution rate was 0% and 17.8% of covered payroll, respectively.

Net pension liability – NoaNet's net pension liability was measured as of December 31, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	3.00%	3.00%
Salary increases, average, including inflation	4.00%	4.00%
Discount rate	3.50%	4.25%
Post employment benefit changes, including annual cost of living adjustment	2.00%	2.00%

Mortality rates were based on the RP-2014 Male/Female Annuitant Mortality Tables Post-Retirement only.

Note 9 – Retirement Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The 2017 target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Cash and Cash Equivalents	4%	1.6%
large Cap US Stock	54%	6.7%
International Stock	11%	6.9%
Fixed Income Equities	31%	3.1%
	100%	

The 2016 target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity	38%	7.4%
International equity	15%	7.2%
Fixed income	37%	4.8%
Real estate	10%	7.6%
	100%	

Discount rate – The discount rate used to measure the total pension liability was 3.5%. The projection of cash flows used to determine the discount rate assumes that NoaNet contributions will be equal to the expected value of new accrued benefits plus the amortization of the current shortfall, and assumes that benefit distributions will be made monthly for retirees starting at age 65. The long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments that were expected to be funded by Plan assets based on the expected contributions, benefit payments, and investment returns to determine the total pension liability. The 20-year AAA Municipal Bond Rate of 3.16% was applied to all projected benefit payments that were not expected to be funded by Plan assets based on the expected contributions, benefit payments, and investment returns. The discount rate changed since the prior fiscal year, the prior discount rate was 4.25%.

Note 9 – Retirement Plans (continued)

During the year ended December 31, 2017, the following changes occurred in the Net Pension liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2016	$ 14,468,538	$ 5,938,324	$ 8,530,214
Changes for the year			
Service cost	1,608,180	-	1,608,180
Interest	709,645	-	709,645
Differences between expected and actual experience	2,265,859	-	2,265,859
Changes of assumptions	2,233,444	-	2,233,444
Contributions - employer	-	-	-
Net investment income	-	682,796	(682,796)
Benefit payments	(78,435)	(78,435)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	6,738,693	604,361	6,134,332
Balances at December 31, 2017	$ 21,207,231	$ 6,542,685	$ 14,664,546

As of December 31, 2017, the pension plan's fiduciary net position is 30.9% of the total pension liability.

Note 9 – Retirement Plans (continued)

During the year ended December 31, 2016, the following changes occurred in the Net Pension liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2015	$ 14,421,148	$ 4,789,611	$ 9,631,537
Changes for the year			
Service cost	1,182,512	-	1,182,512
Interest	542,053	-	542,053
Differences between expected and actual experience	349,837	-	349,837
Changes of assumptions	(1,961,999)	-	(1,961,999)
Contributions - employer	-	983,200	(983,200)
Net investment income	-	230,526	(230,526)
Benefit payments	(65,013)	(65,013)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	47,390	1,148,713	(1,101,323)
Balances at December 31, 2016	$ 14,468,538	$ 5,938,324	$ 8,530,214

As of December 31, 2016, the pension plan's fiduciary net position is 41% of the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the 2017 net pension liability of NoaNet, calculated using the discount rate of 3.5%, as well as what NoaNet's net pension liability would be if it were calculated using a discount rate that is 1% point lower (2.5%) or 1% point higher (4.5%) than the current rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
NoaNet's net pension liability	$ 19,067,032	$ 14,664,546	$ 11,565,506

The following presents the 2016 net pension liability of NoaNet, calculated using the discount rate of 4.25%, as well as what NoaNet's net pension liability would be if it were calculated using a discount rate that is 1% point lower (3.25%) or 1% point higher (5.25%) than the current rate:

	1% Decrease (3.25%)	Current Discount Rate (4.25%)	1% Increase (5.25%)
NoaNet's net pension liability	$ 12,808,846	$ 8,530,214	$ 5,436,269

Note 9 – Retirement Plans (continued)

Plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued pension financial statements. A copy of these financial statements can be obtained by writing to Northwest Open Access Network, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

Pension expense and deferred outflows of resources related to pensions – For the year ended December 31, 2017 and 2016, NoaNet recognized pension expense of $2,332,314 and $1,577,241, respectively. At December 31, 2017 and 2016, NoaNet reported deferred outflows of resources related to pensions from the following sources:

	2017	2016
Differences between expected and actual experience	$ 3,339,011	$ 1,255,207
Changes of assumptions	2,909,959	840,312
Net difference between projected and actual earnings on pension plan investments	14,715	366,138
Total	$ 6,263,685	$ 2,461,657

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years ended December 31,	
2018	$ 398,084
2019	398,084
2020	315,972
2021	286,020
2022	345,861
Thereafter	4,519,664

Payable to the Pension Plan – At December 31, 2017, NoaNet reported a payable of $14,664,546 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2017.

In January 2003, certain employees were transferred to NoaNet Oregon, a prior affiliate of NoaNet. The Plan was amended to freeze the benefits for these employees of NoaNet Oregon with additional years of service considered in the calculation of vesting as applicable.

Defined contribution plan (457b Plan) – NoaNet sponsors a deferred compensation plan (Internal Revenue Code Section 457) for all eligible employees. The plan is entirely funded by voluntary employee contributions. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. In 2008, NoaNet started a program of matching contributions. Matching contributions made by NoaNet are included in the employee's annual compensation and are capped annually at $2,400 per eligible employee. NoaNet made matching contributions of $20,533 and $12,382 for the years ended December 31, 2017 and 2016, respectively.

Note 9 – Retirement Plans (continued)

Defined contribution plan (401a Plan) – In 2016, NoaNet started a deferred compensation plan (Internal Revenue Code Section 401) for all eligible employees. The plan is entirely funded by voluntary employee contributions. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

Note 10 – Self-Insurance

NoaNet is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). RCW Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of RCW Chapter 54.16. The liability pool was formed on December 31, 1976, when certain PUDs in the State of Washington joined together by signing the Self Insurance Agreement (SIA) to pool their self-insured losses and jointly purchase insurance and administrative services. Nineteen members currently belong to PURMS.

Additional pools for property and health and welfare coverage were added in March 1997 and April 2000, respectively, under the same SIA and with the same membership. Each member elects the pools in which they participate. NoaNet has elected to participate in all three pools.

Members of each pool are assessed to maintain the designated self-insured retention. After termination, a member is still responsible for their share of contributions to the pools for any unresolved, unreported, and in-process claims for the period they were a signatory to the agreement. NoaNet's share of estimated claims payable was $182,321 and $197,246 as of December 31, 2017 and 2016, respectively. The pools are fully funded by its current and former members. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, WA, which has been contracted to perform claims adjustment and loss prevention services.

The pools are governed by a Board of Directors, which is comprised of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the pools.

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Note 10 – Self-Insurance (continued)

A description of each pool follows:

Liability pool – The liability pool has a $1 million self-insured retention with $3.35 million of reserves. The fund purchases $35 million of excess general liability insurance over the $1 million retention.

Property pool – The majority of the property in the property pool has a $250,000 self-insured retention. Certain classes of property have higher retention requirements up to $500,000. Reserves for the property pool are set at $750,000. In addition, the fund purchases $200 million of excess insurance over the $250,000 (or higher) retention level.

Health & welfare risk pool – The health & welfare risk pool (H&W Pool) provides health and welfare insurance for NoaNet employees and dependents in accordance with the terms of SIA and the terms of each member's respective coverage booklet, provided to employees.

The H&W Pool maintains reserves approximately equal to the sum of three times the amount of each member's historical average monthly H&W claims. The H&W Pool's ongoing operations are financed through monthly assessments of its participating members. Under such assessments, each member of the H&W Pool pays the Pool the cost the Pool incurred during the preceding month for H&W claims for member employee coverage as well as the member's share, determined under the H&W Pool general assessment formula, of shared H&W costs.

Shared H&W costs include administrative expenses incurred by the Pool, premiums for stop-loss insurance, PPO charges, and shared H&W claims. H&W claims become a "shared" expense when and to the extent the cost of the claims exceeds the stop-loss point applicable to a particular member's employee or when the cost of the claim makes the total amount a particular member has paid towards the claims of its employees exceed the stop-loss point applicable to that member.

All stop-loss points are determined for each member and its employees pursuant to the H&W Pool general assessment formula. During 2017 and 2016, PURMS maintained stop-loss insurance with a commercial carrier in aggregate amounts of $275,000 per insured with an aggregate stop-loss of approximately $21 million for the insured of all members.

Note 11 – Related Party Transactions

NoaNet provides communication transport and related services to its members. Accounts receivable from members at December 31, 2017 and 2016, were approximately $145,000 and $132,000, respectively, and revenue for the years ended December 31, 2017 and 2016, was approximately $1,600,000 and $2,700,000, respectively.

Note 12 – Subsequent Events

NoaNet has evaluated subsequent events through June 1, 2018.

Note 13 – Operating Expenses

Operating expenses were as follows for the years ended December 31:

	Years Ended December 31, 2017	2016
Fiber optic and related licenses and leases	$ 15,555,131	$ 16,121,150
Network support and operations center	7,098,067	7,215,556
Depreciation and amortization	7,920,208	8,036,244
Marketing and member services	1,830,947	2,026,745
General and administrative	4,608,843	3,801,553
Taxes and licenses	217,498	233,922
Administrative salaries	1,744,644	1,888,347
Professional fees	136,194	174,882
Bad debt expense	127,887	2,052
	$ 39,239,419	$ 39,500,451

Required Supplementary Information

Last 10 Fiscal Years*

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 1,608,180	$ 1,182,512	$ 1,100,957	$ 934,011
Interest	709,645	542,053	445,626	386,108
Differences between expected and actual experience	2,265,859	349,837	63,774	961,628
Changes of assumptions	2,233,444	(1,961,999)	3,004,689	-
Benefits payments	(78,435)	(65,013)	(67,171)	(54,037)
Net change in total pension liability	6,738,693	47,390	4,547,875	2,227,710
Total pension liability - beginning	14,468,538	14,421,148	9,873,273	7,645,563
Total pension liabiliy - ending (a)	21,207,231	14,468,538	14,421,148	9,873,273
Plan fiduciary net position				
Contributions - employer	-	983,200	956,200	929,875
Net investment income	682,796	230,526	28,475	67,503
Benefit payments	(78,435)	(65,013)	(67,171)	(54,037)
Net change in plan fiduciary net position	604,361	1,148,713	917,504	943,341
Plan fiduciary net position - beginning	5,938,324	4,789,611	3,872,107	2,928,766
Plan fiduciary net position - ending (b)	6,542,685	5,938,324	4,789,611	3,872,107
Net pension liability - ending (a) - (b)	$ 14,664,546	$ 8,530,214	$ 9,631,537	$ 6,001,166
Plan fiduciary net position as a percentage of the total pension liability	30.9%	41.0%	33.2%	39.2%
Covered-employee payroll	$ 5,358,698	$ 5,527,816	$ 4,164,744	$ 3,460,402
Net pension liability as a percentage of covered employee payroll	273.7%	154.3%	231.3%	173.4%

*GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, NoaNet will present information for those years for which information is available.

Northwest Open Access Network
Schedule of Contributions

	Last 10 Fiscal Years* 2017	2016	2015	2014
Actuarially determined contribution	$ 1,093,639	$ 982,566	$ 950,843	$ 924,749
Contributions in relation to the actuarially determined contribution	-	983,200	956,200	929,875
Contribution excess	$ 1,093,639	$ (634)	$ (5,357)	$ (5,126)
Covered employee payroll	$ 5,358,698	$ 5,527,816	$ 4,164,744	$ 3,460,402
Contributions as a percentage of covered employee payroll	0.0%	17.8%	23.0%	26.9%

Notes to Schedule

Valuation date	12/31/2017	12/31/2016	12/31/2015	12/31/2014

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age normal cost
Amortization method	Shortfall amortization charge
Remaining amortization period	7 years
Asset valuation method	Market value
Inflation	3.00%
Salary increases	4.00%
Investment rate of return	3.50%
Retirement age	65
Mortality	In the 2017 and 2015 actuarial valuations, assumed life expectancies were based on the RP2014 Male/Female Annuitant Mortality Tables Post Retirement Only. In the 2016 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP2016 Male/Female Annuitant Mortality Tables Post-Retirement Only. in 2014 and prior years, those assumptions were based on the RP 2000 Combined Healthy Unisex Mortality Table Post-Retirement only.

*GASB Statement No. 68 requires 10 years of information to be presented in this table. However, until a full 10-year trend is compiled, NoaNet will present information for those years for which information is available.

MOSSADAMS

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*

Board of Directors
Northwest Open Access Network

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 financial statements of Northwest Open Access Network (NoaNet), which comprise the statements of net position as of and for the year ended December 31, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the notes to the financial statements, and have issued our report thereon dated June 1, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Northwest Open Access Network's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwest Open Access Network's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwest Open Access Network's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency or 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 over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Open Access Network's financial statements are free of 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 determination of financial statement amounts. 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.

Moss Adams LLP

Spokane, Washington
June 1, 2018