



**Office of the Washington State Auditor
Pat McCarthy**

December 14, 2020

Board of Commissioners
Public Utility District No. 1 of Pend Oreille County
Newport, 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 the financial statements of Public Utility District No. 1 of Pend Oreille County for the fiscal years ended December 31, 2019 and 2018. The District contracted with the CPA firm for this audit and requested that we accept it 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 Combined Financial Statements
with Required Supplementary Information

Public Utility District No. 1
of Pend Oreille County, Washington

December 31, 2019 and 2018



Report of Independent Auditors

The Board of Commissioners
Public Utility District No. 1 of Pend Oreille County
Newport, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Public Utility District No. 1 of Pend Oreille County, Washington (the District), which comprise the combined statements of net position as of December 31, 2019 and 2018, the individual statements of net position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2019, the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years ended December 31, 2019 and 2018, and the individual statements of revenues, expenses, and changes in net position and cash flows for the Electric, Box Canyon Production, Water, and Community Network Systems for the year ended December 31, 2019, the statements of fiduciary net position – pension fund as of December 31, 2019 and 2018, and the statements of changes in fiduciary net position – pension fund for the years ended December 31, 2019 and 2018, and 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 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 opinions 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 audit 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 in 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 opinions.

Opinions

In our opinion, the individual and combined financial statements referred to above present fairly, in all material respects, the financial position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2019, and the results of its individual and combined statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the District's combined statement of net position as of December 31, 2018, and the related combined statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the statements of fiduciary net position – pension fund as of December 31, 2019 and 2018, and the statements of changes in fiduciary net position – pension fund for the years then, 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 the accompanying management's discussion and analysis, schedule of proportionate share of net pension liability, and schedule of employer contributions, as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules of Electric System – revenue, customer, and energy statistics, Electric System – senior lien parity debt service coverage, Box Canyon Production System – senior lien parity debt service coverage, and Community Network System – senior lien parity debt service coverage, as listed in the table of contents, are presented for purposes of additional analysis and are not required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2020, on our consideration of Public Utility District No. 1 of Pend Oreille County'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 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 the District's 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 the District's internal control over financial reporting and compliance.



Everett, Washington
May 21, 2020

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 Commissioners
Public Utility District No. 1 of Pend Oreille County
Newport, Washington

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 Public Utility District No. 1 of Pend Oreille County, Washington (the District), which comprise the combined statements of net position as of December 31, 2019 and 2018, the individual statements of net position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2019, the related combined statements of revenues, expenses, and changes in net position and cash flows for the years ended December 31, 2019 and 2018, and the individual statements of revenues, expenses, and changes in net position and cash flows for the Electric, Box Canyon Production, Water, and Community Network Systems for the year ended December 31, 2019, the statements of fiduciary net position – pension fund as of December 31, 2019 and 2018, and the statements of changes in fiduciary net position – pension fund for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated May 21, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 significant deficiencies or material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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 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.

A handwritten signature in dark ink, appearing to read "Moss Adams LLP", with a stylized flourish at the end.

Everett, Washington
May 21, 2020

Management Discussion and Analysis

Public Utility District No. 1 of Pend Oreille County

The financial management of Public Utility District No. 1 of Pend Oreille County, Washington (the District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the years ended December 31, 2019, 2018 and 2017. This discussion and analysis is designed to be used in conjunction with the financial statements and notes, which follow this section.

Overview of the Financial Statements

The financial section of the annual report includes the report of independent auditors, management's discussion and analysis, basic financial statements with accompanying notes, and required supplementary information (unaudited).

The financial statements of the District report the self-supporting, proprietary activities of the District funded primarily by the sale of power, water, and telecommunication services, and activities of fiduciary funds which account for resources held in trust by the District for the benefit of its employees. The District reports the business-type activities in a manner similar to private-sector business enterprises, using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

The District's proprietary reporting entity consists of four primary component units, or operating systems. The Electric System distributes electricity to residential and other consumers in Pend Oreille County. The Box Canyon Production System produces hydroelectric power from the Box Canyon Hydroelectric Project. The Water System consists of nine individual water distribution subdivisions. The Community Network System supplies wholesale broadband communication services. The financial statements are reported in a combined format, meaning that each of the primary component units is reported in a columnar approach, which are combined into a District-wide total.

The District's fiduciary fund reports resources held in trust for retirement benefits for retired employees and their beneficiaries. The resources of this fund are not available to support the District's proprietary fund functions, and are therefore not included in the proprietary fund statements.

The combined statements of net position present information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year end. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.

The combined statements of revenues, expenses, and changes in net position report revenues and expenses, as well as change in net position for this period. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

The combined statements of cash flows provide information concerning cash receipts and disbursements during the reporting period resulting from operational, financing, and investing activities.

The notes to the combined financial statements provide additional information that is essential to a full understanding of the financial statements, as described above, and are an integral part thereof.

Summary of Financial Condition

During 2019, the District's overall financial position improved. Total net position for the District increased \$4,747,861 from \$144,870,030 in 2018 to \$149,617,891 in 2019.

Financial Analysis

Combined Statements of Net Position

| as of December 31 | 2019 | 2018 | 2017 |
|--|----------------|----------------|----------------|
| Assets and Deferred Outflows of Resources | | | |
| Current assets | \$ 85,325,606 | \$ 82,212,198 | \$ 81,142,445 |
| Other assets | 9,454,799 | 10,071,334 | 10,805,932 |
| Net utility plant | 260,435,099 | 265,505,570 | 259,010,507 |
| Total assets | 355,215,504 | 357,789,102 | 350,958,884 |
| Deferred outflows of resources | 1,546,124 | 925,878 | 330,916 |
| Total assets and deferred outflows of resources | \$ 356,761,628 | \$ 358,714,980 | \$ 351,289,800 |
| Liabilities and Deferred Inflows of Resources | | | |
| Current liabilities | \$ 18,208,027 | \$ 17,988,892 | \$ 34,130,595 |
| Other liabilities | 30,504,527 | 31,718,123 | 39,485,494 |
| Long-term debt | 156,716,168 | 162,509,484 | 136,524,040 |
| Total liabilities | 205,428,722 | 212,216,499 | 210,140,129 |
| Deferred inflows of resources | 1,715,015 | 1,628,451 | 1,021,265 |
| Total liabilities and deferred inflows of resources | \$ 207,143,737 | \$ 213,844,950 | \$ 211,161,394 |
| Net position | | | |
| Net investment in capital assets | 104,788,034 | 101,293,412 | 110,609,842 |
| Restricted | 25,842,497 | 25,064,143 | 23,926,125 |
| Unrestricted | 18,987,360 | 18,512,475 | 5,592,439 |
| Total net position | \$ 149,617,891 | \$ 144,870,030 | \$ 140,128,406 |

Combined Statements of Revenues, Expenses, and Changes in Net Position

| for the Year Ended December 31 | 2019 | 2018 | 2017 |
|---|----------------|----------------|----------------|
| Operating Revenues | | | |
| Sales to retail customers | \$ 51,236,951 | \$ 49,533,086 | \$ 47,937,251 |
| Sales to other utilities | 4,603,563 | 4,573,930 | 1,937,010 |
| Other | 1,692,926 | 1,446,271 | 1,178,107 |
| Total operating revenues | \$ 57,533,440 | \$ 55,553,287 | \$ 51,052,368 |
| Operating Expenses | | | |
| Power costs | \$ 15,164,787 | \$ 14,892,569 | \$ 11,290,848 |
| Operations, maintenance, and administrative | 19,035,949 | 18,806,516 | 19,899,129 |
| Taxes and depreciation | 13,312,534 | 13,142,372 | 12,673,044 |
| Total operating expenses | \$ 47,513,270 | \$ 46,841,457 | \$ 43,863,021 |
| Nonoperating Revenues (Expenses) | | | |
| Interest income | 771,669 | 702,063 | 296,771 |
| Interest expense | (6,249,829) | (4,382,065) | (4,972,167) |
| Other | 205,851 | (290,204) | (406,559) |
| Total nonoperating revenues (expenses) | \$ (5,272,309) | \$ (3,970,206) | \$ (5,081,955) |
| Change in Net Position | \$ 4,747,861 | \$ 4,741,624 | \$ 2,107,392 |

Pend Oreille County is located in the northeast corner of Washington State, bordered on the north by Canada and the east by the state of Idaho. The County is traversed by the Pend Oreille River, which is the second largest river in the State. Most of the County's land area consists of private timber holdings, the Kalispel Indian reservation, and the Colville National Forest. Historically, the region's economy has been primarily based on forest and mineral resources. The major land use activity in the area is agriculture, forestry and recreation. The City of Newport serves as the County seat and is the largest city in the County. Other incorporated areas of the County include the Towns of Cusick, Lone, Metaline and Metaline Falls.

Electric System

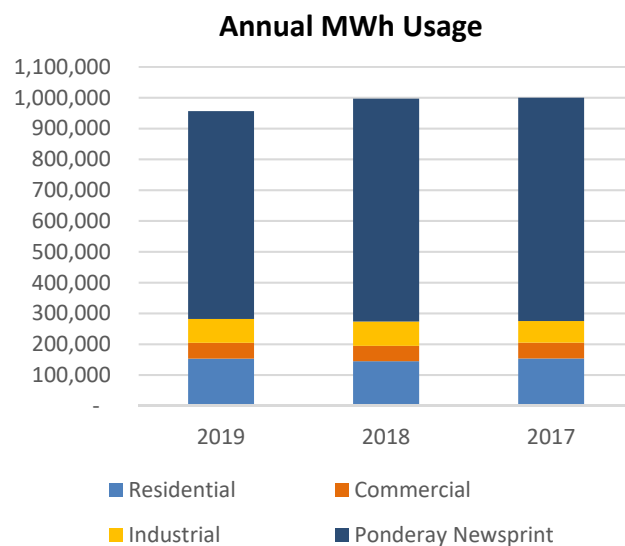
The District's electric system distributes electricity to approximately 9,300 meters, including 849 commercial customers and 12 industrial customers. The District generates power from District-owned Box Canyon Dam and Calispel Powerhouse, and purchases power from Bonneville Power Administration, Seattle City Light's Boundary Project, and power markets.

Ponderay Newsprint Company is the District's largest customer and operates under a cost-based contract rather than a rate structure. A portion of the District's wholesale power sales offset Ponderay Newsprint Company's costs, and therefore billings decrease when sales to other utilities increase, and vice versa.

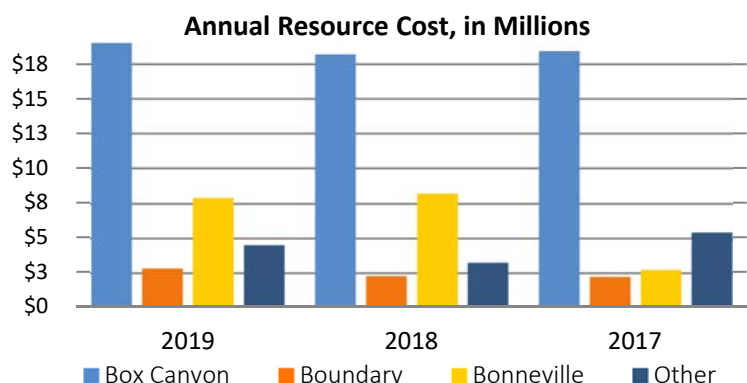
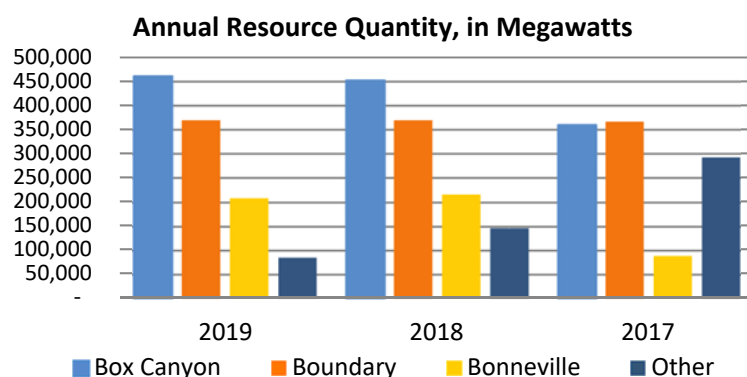
| Electric System Selected Data | 2019 | 2018 | 2017 |
|---|---------------|---------------|---------------|
| Residential revenues | \$ 10,820,873 | \$ 10,282,551 | \$ 10,576,818 |
| Commercial revenues | 3,087,375 | 2,964,548 | 2,869,050 |
| Industrial revenues | 3,527,411 | 3,654,051 | 3,222,410 |
| Ponderay Newsprint revenues | 31,142,954 | 30,112,591 | 28,858,279 |
| Residential customer growth | 1.55% | 1.24% | 0.97% |
| Residential energy rate (cents per kWh) | 5.13¢ | 5.11¢ | 5.11¢ |
| Residential monthly system access charge | \$30.50 | \$30.50 | \$29.50 |
| <u>Average Power Cost per Megawatt Hour:</u> | | | |
| Box Canyon | \$42 | \$41 | \$52 |
| Boundary | \$8 | \$6 | \$6 |
| Bonneville Power Administration | \$38 | \$38 | \$30 |
| Market purchases and other | \$40 | \$29 | \$21 |

Factors influencing 2019 economic results:

- The District experienced a fairly average weather year. The District is a winter-peaking utility which reached a new peak in 2017 due to abnormally cold temperatures.
- The District's largest customer, Ponderay Newsprint Company, had consistent power purchases during 2019 and 2018. The District and Ponderay Newsprint Company communicate regularly and the District considers the current relationship to be in good standing.
- The District's second largest customer, Teck Mine, shut down active operations of their zinc mine in northern Pend Oreille County in August 2019. Movement to their care and operations mode resulted in a reduction of 2019 revenue received from Teck of approximately \$500,000.
- Three new industrial class customers began operations in the summer of 2019, adding approximately \$145,000 to 2019 industrial revenue, with an expected annual revenue of \$300,000 going forward.
- Box Canyon generation levels for 2019 were near historical average at 52.58 megawatts per hour, after a low average in 2017 of 41.02 megawatts per hour due to low river levels. 2018 generation was 51.56 megawatts per hour.



- The District contracted with Portland General Electric (PGE) in 2019 to sell the carbon-free attributes of Box Canyon's generation. The District sells the power generated by Box Canyon to PGE on an hourly basis, and receives the same amount of power from PGE in return. The District received over \$567,000 in carbon-free attribute payments in 2019.
- The District received, on average, approximately 42 megawatts of power per hour from the City of Seattle's Boundary Hydroelectric Project, under a contract that expires in 2055.
- The District has a power purchase contract with the Bonneville Power Administration (BPA) for Shaped



Block purchases. These purchases are predetermined monthly levels of power delivered consistently throughout the month. The average amount of power received during the year is dependent on Ponderay Newsprint Company's expected load, and accounts for the fluctuation in 2017. The District received an average of 24 megawatts per hour in 2019 and 25 megawatts per hour in 2018.

- Other energy resources include costs to operate the Calispell Powerhouse, which produces an average of less than 1 megawatt per hour, and market power purchases necessary to balance resources to customer load.

Electric System Financial Data

| as of December 31 | 2019 | 2018 | 2017 |
|---|----------------|----------------|----------------|
| Total assets and deferred outflows of resources | \$ 110,087,830 | \$ 110,382,740 | \$ 110,791,651 |
| Total liabilities and deferred inflows of resources | \$ 41,706,934 | \$ 46,228,207 | \$ 49,165,126 |
| Net investment in capital assets | 52,360,205 | 49,429,472 | 49,432,317 |
| Restricted | 11,897,226 | 10,872,942 | 8,488,872 |
| Unrestricted | 4,123,465 | 3,852,119 | 3,705,336 |
| Total net position | \$ 68,380,896 | \$ 64,154,533 | \$ 61,626,525 |

| Capital Assets | 2019 | 2018 | 2017 |
|-----------------------------------|----------------|----------------|----------------|
| Transmission and distribution | \$ 120,032,210 | \$ 116,506,829 | \$ 114,990,519 |
| Hydroelectric plant and equipment | 1,525,945 | 1,525,945 | 1,526,930 |
| General plant | 4,357,051 | 4,299,132 | 4,158,606 |
| Total utility plant in service | 125,915,206 | 122,331,906 | 120,676,055 |
| Construction work in progress | 2,059,490 | 2,280,046 | 1,620,362 |
| Total gross utility plant | \$ 127,974,696 | \$ 124,611,952 | \$ 122,296,417 |

| Long Term Debt | 2019 | 2018 | 2017 |
|------------------------|--------------|---------------|---------------|
| Total debt outstanding | \$ 9,673,632 | \$ 12,555,512 | \$ 13,967,174 |

The District refunded the Electric System 2010 Bonds during 2019. The resulting 10 year bonds had a total present value savings of \$1.5 million and will save the District an average of \$269,000 annually in principal and interest payments. The true interest cost of the 10 year bonds was 2.3%.

The debt service coverage ratio measures cash flow from operations in comparison to annual debt service. The District's bond covenants require a debt service coverage ratio of at least 1.25, and the District has exceeded its bond covenants the last three years with ratios of 4.60, 2.33 and 2.11 for 2019, 2018, and 2017, respectively. The District funds a rate stabilization account, the amount of which may be classified as revenue for debt service coverage purposes in the event that the District's net operating revenues are insufficient to meet that year's debt service coverage bond covenant. The funding for this account moves cash from unrestricted to restricted; there is no deferred revenue associated with this account and it is used only for the calculation of debt service coverage. The District transferred \$3.2 million into this account during 2019, bringing the balance in the account to \$10 million.

Box Canyon Production System

The Box Canyon Production System produces hydroelectric power from the Box Canyon Project, the output of which is sold to the Electric System. The Box Canyon Project is located on the Pend Oreille River, is licensed by the Federal Energy Regulatory Commission (FERC), and was completed in 1956. As a run-of-the-river project, Box Canyon uses water as it is available and has limited storage capability.

Revenues for the Box Canyon Production System are calculated based on the cash expenditures to operate the Project. This includes labor and materials required to run the facility, expenditures for environmental work related to the reservoir behind the Project, principal and interest on Box Canyon's debt service, and payments for capital expenditures.

| Box Canyon Production System Selected Data | 2019 | 2018 | 2017 |
|---|---------------|---------------|---------------|
| Total cost of production | \$ 19,421,174 | \$ 18,533,686 | \$ 18,643,961 |
| Operating expenses | 12,691,477 | 11,543,301 | 11,133,114 |
| Annual generation in megawatt hours | 460,575 | 451,656 | 359,364 |

Factors influencing 2019 economic results:

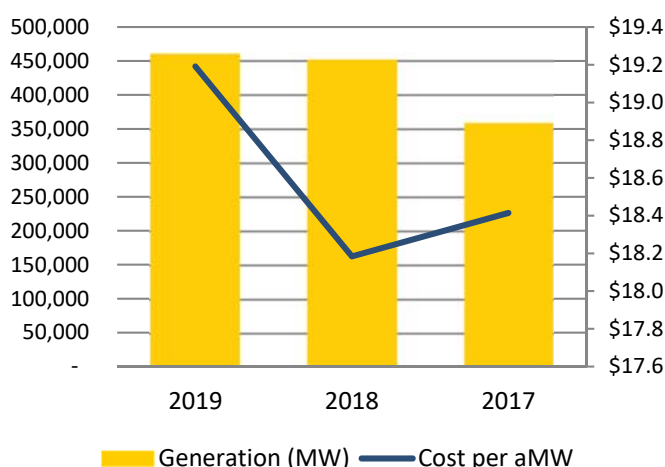
- Local and regional snowpack, the length of the spring thaw, and summer heat all affect Pend Oreille River water levels and the amount of power that the Box Canyon Project can produce. The design and location of the Project necessitates the District to spill in high water conditions, which occurred in both 2018 and 2017. The high water mark for 2019 was 66,425 cubic feet per second, below the 80,000 mark that necessitates the Project to begin spilling. Average hourly generation for the dam was 52 megawatts, with a peak generation of 87 megawatts in May. Summer heat in 2017 created abnormally low water conditions

after the spring thaw, resulting in lower generation for the year.

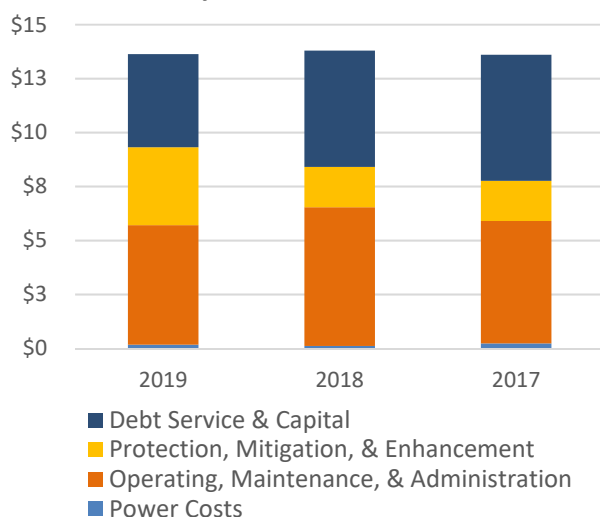
- Operating expenses for the Box Canyon Production System include environmental work being performed as required by FERC licensing conditions (Protection, Mitigation, and Enhancement expenses). The type and expense of environmental work will vary from year to year and consists of cultural studies, historical education, stream rehabilitation projects, recreation and wildlife projects, and water quality programs on the Pend Oreille River. Ponderay Newsprint Company contract parameters currently mitigate expenses and low water flows for Box Canyon.

- The District has been constructing an upstream fish passage facility at Box Canyon, fulfilling a FERC license requirement. Completion of the project has been delayed from an expected date of November 1, 2018 and the District is in negotiations with the contractor to complete the project to standards during 2020. Contractual damages have been accruing through 2019.

Box Canyon



Box Canyon Production Costs, in Millions



- In 2019, the District submitted a license amendment to FERC requesting that the District make mitigating payments to the Kalispel Tribe of Indians in lieu of constructing downstream fish passage at Box Canyon Dam, among other items. The District accrued \$2 million in 2019 in anticipation of the first payment upon FERC's approval, expected in early 2020.

- Administrative costs for the Box Canyon Production System include professional fees related to the issuance of revenue bonds during 2019 and 2018 in the amount of \$314,486 and \$667,087, respectively. The District expensed these costs per Generally Accepted Accounting Principles (GAAP).

Box Canyon Production System Financial Data

| as of December 31 | 2019 | 2018 | 2017 |
|---|----------------|----------------|----------------|
| Total assets and deferred outflows of resources | \$ 217,376,644 | \$ 217,543,406 | \$ 207,834,732 |
| Total liabilities and deferred inflows of resources | \$ 161,469,123 | \$ 163,118,099 | \$ 157,044,019 |
| Net investment in capital assets | 24,685,520 | 22,614,231 | 30,005,707 |
| Restricted | 13,789,271 | 14,041,201 | 15,437,253 |
| Unrestricted | 17,432,730 | 17,769,875 | 5,347,753 |
| Total net position | \$ 55,907,521 | \$ 54,425,307 | \$ 50,790,713 |

| Capital Assets: | 2019 | 2018 | 2017 |
|-----------------------------------|----------------|----------------|----------------|
| Hydroelectric plant and equipment | \$ 149,833,230 | \$ 149,852,111 | \$ 148,658,752 |
| General plant | 14,040,497 | 14,040,497 | 14,040,497 |
| Total utility plant in service | \$ 163,873,727 | \$ 163,892,608 | \$ 162,699,249 |
| Construction work in progress | \$ 45,953,474 | \$ 44,674,005 | \$ 32,694,750 |
| Total gross utility plant | \$ 209,827,201 | \$ 208,566,613 | \$ 195,393,999 |

| Long Term Debt | 2019 | 2018 | 2017 |
|------------------------|----------------|----------------|----------------|
| Total debt outstanding | \$ 148,592,147 | \$ 152,483,990 | \$ 134,745,223 |

In September 2019, the District refinanced revenue bonds originally issued in 2010. The resulting bonds carried a present value savings of over \$8 million and will save the District an average of \$537,000 in principal and interest payments each year. The true interest cost of the 20 year bonds were issued at 3.4%.

As part of the bond issuance process, the District was re-evaluated by Moody's Investor Services and Fitch Ratings in the summer of 2019. Moody's upgraded the District from a stable to a positive outlook on their Baa2 rating, citing positive risk mitigation movement and strong financial reserves and metrics. Fitch Ratings reaffirmed the District's rating of A- with a stable outlook, also citing the District's strong reserves and solid financial performance as strengths.

Water System

The District operates nine separate water systems throughout Pend Oreille County. The District is contractually obligated to maintain separate and distinct rates for each water system that reflect the individual system's costs.

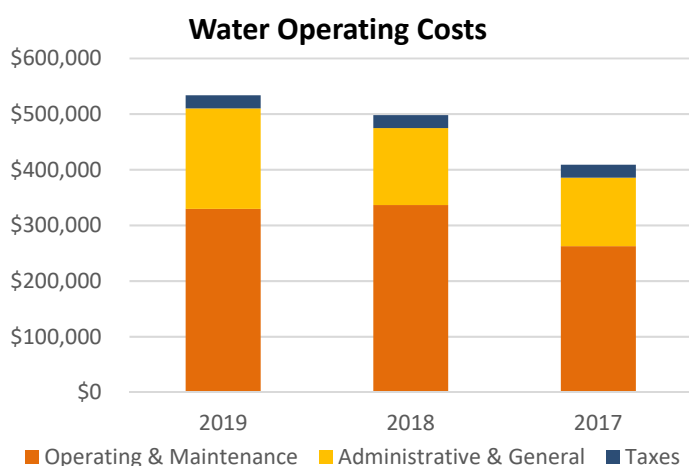
| Water System Selected Data | 2019 | 2018 | 2017 |
|-----------------------------------|------------|------------|------------|
| Operating revenues | \$ 550,409 | \$ 564,791 | \$ 472,273 |
| Operating expenses | 691,072 | 859,771 | 600,106 |

Annual Water Usage by System, in gallons:

| | | | |
|-----------------|------------|------------|------------|
| Metaline Falls | 11,479,472 | 14,405,900 | 10,493,477 |
| Sandy Shores | 3,674,280 | 4,452,499 | 4,319,961 |
| Riverbend | 2,025,666 | 2,943,757 | 3,338,566 |
| Greenridge | 369,960 | 1,231,560 | 875,500 |
| Riverview | 1,175,882 | 2,673,043 | 1,799,345 |
| Sunvale | 2,619,770 | 2,814,910 | 3,752,980 |
| Lazy Acres | 1,188,080 | 1,236,880 | 1,241,190 |
| Holiday Shores | 639,890 | 817,477 | 882,213 |
| Granite/Sacheen | 706,510 | 763,810 | 652,130 |

Factors influencing 2019 economic results:

- Metaline Falls is the only District-owned system that serves an incorporated town. At 188 customers, it is the largest of the water systems that the District serves. The remaining systems serve small communities primarily located on the Pend Oreille River, ranging from 82 to 29 customers.



- During 2018 and 2019, the District contracted Water Operator services to a water system owned by a town in Pend Oreille County. The Town reimbursed the District for operations and administrative work performed, as well as additional expenses incurred by the District on the Town's behalf. Approximately \$85,000 and \$69,411 for 2018 and 2019, respectively, is included as other revenue for the consolidated water systems, which offsets approximately the same amount of expenses for the year.

Water System Financial Data

| as of December 31 | 2019 | 2018 | 2017 |
|---|--------------|--------------|--------------|
| Total assets and deferred outflows of resources | \$ 4,804,328 | \$ 5,002,481 | \$ 5,178,104 |
| Total liabilities and deferred inflows of resources | \$ 347,864 | \$ 403,007 | \$ 281,514 |
| Net investment in capital assets | 4,659,050 | 4,807,232 | 4,973,039 |
| Restricted | - | - | - |
| Unrestricted | (202,586) | (207,758) | (76,449) |
| Total net position | \$ 4,456,464 | \$ 4,599,474 | \$ 4,896,590 |

| Capital Assets: | 2019 | 2018 | 2017 |
|--------------------------------|--------------|--------------|--------------|
| Transmission and distribution | \$ 8,668,098 | \$ 8,667,386 | \$ 8,667,306 |
| General plant | 78,047 | 78,047 | 78,047 |
| Total utility plant in service | 8,746,145 | 8,745,433 | 8,745,353 |
| Construction work in progress | 18,794 | 962 | - |
| Total gross utility plant | \$ 8,764,939 | \$ 8,746,395 | \$ 8,745,353 |

| Long Term Debt | 2019 | 2018 | 2017 |
|------------------------|-----------|-----------|------------|
| Total debt outstanding | \$ 60,027 | \$ 97,620 | \$ 135,191 |

The Riverbend, Sunvale, and Granite/Sacheen systems have low-interest loans with Washington State agencies. All water systems carry small inter-system balances with the Electric System to accommodate operational transactions.

Community Network System

The District began building a fiber optic based communications system in 1996 to allow high speed communications between the District's electric equipment. The District subsequently extended use shortly thereafter to Pend Oreille County municipal customers, including schools, libraries, and hospital districts.

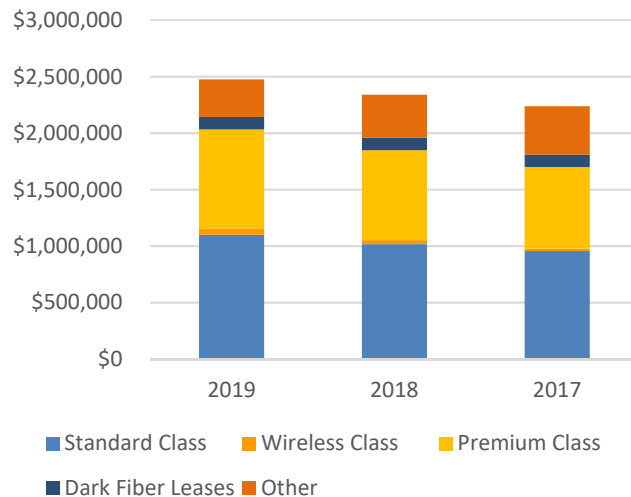
After receiving an American Recovery and Reinvestment Act grant in 2010, the District expanded its existing fiber backbone system with construction of fiber to individual homes and businesses in the southern part of Pend Oreille County. Per Washington State law, the District is authorized to be a wholesale provider of broadband, and serves residential end users through three local retail internet service providers.

| Community Network System Selected Data | 2019 | 2018 | 2017 |
|---|--------------|--------------|--------------|
| Operating revenues | \$ 2,756,250 | \$ 2,813,847 | \$ 2,448,738 |
| Operating expenses | 3,546,889 | 3,738,908 | 3,575,314 |
| Average fiber standard class end users | 2,336 | 1,990 | 1,849 |
| Average wireless class end users | 112 | 92 | 56 |

Factors influencing 2019 economic results:

- The Community Network System continued to see substantial growth during 2019. Customers requesting service after grant funds were exhausted in 2013 pay the full cost of extending service. Contributions in aid of construction of \$239,153, \$431,731, and \$155,121 in 2019, 2018, and 2017, respectively, have offset costs of expanding the System.
- Expenses for the Community Network System have remained fairly constant over the past 3 years. At \$2.45 million in 2019, \$2.65 million in 2018, and \$2.56 million in 2017, depreciation is the largest component of operating expenses.
- The District has been increasing reserves for the system, adding approximately \$285,000, \$290,000, and \$344,000 to cash reserves in 2019, 2018, and 2017, respectively.

Community Network System Revenues



Community Network System Financial Data

| as of December 31 | 2019 | 2018 | 2017 |
|---|---------------|---------------|---------------|
| Total assets and deferred outflows of resources | \$ 28,166,386 | \$ 29,927,375 | \$ 31,943,402 |
| Total liabilities and deferred inflows of resources | \$ 7,293,376 | \$ 8,236,659 | \$ 9,128,824 |
| Net investment in capital assets | 23,083,259 | 24,442,477 | 26,198,779 |
| Restricted | 156,000 | 150,000 | - |
| Unrestricted | (2,366,249) | (2,901,761) | (3,384,201) |
| Total net position | \$ 20,873,010 | \$ 21,690,716 | \$ 22,814,578 |

| Capital Assets | 2019 | 2018 | 2017 |
|--------------------------------|---------------|---------------|---------------|
| Transmission and distribution | \$ 44,528,896 | \$ 44,094,069 | \$ 43,714,195 |
| General plant | 61,721 | 61,721 | 61,721 |
| Total utility plant in service | 44,590,617 | 44,155,790 | 43,775,916 |
| Construction work in progress | 142,442 | 161,542 | 156,975 |
| Total gross utility plant | \$ 44,733,059 | \$ 44,317,332 | \$ 43,932,891 |
| Long Term Debt | 2019 | 2018 | 2017 |
| Total debt outstanding | \$ 3,234,899 | \$ 3,891,854 | \$ 4,429,125 |

In 2017, the District placed Community Network System debt that was previously held through inter-system loans with a bank. The Community Network System continues to make regular payments on the remaining balance of the inter-system loan.

Other Significant Matters

A description of currently known facts, decisions, and conditions that are expected to have a significant effect on future financial position or results of operations follows.

Ponderay Newsprint Company - District contracts with Ponderay Newsprint Company expire in 2027. The District has no notice from Ponderay Newsprint Company of any plans to cease operations; however, the condition exists that the District has additional business risk from an unusually high concentration of sales to a single entity. The rate impact from a loss of Ponderay Newsprint Company sales could be significant to the District, cannot be accurately forecasted, and depends upon the interaction of many factors, including but not limited to then-existing cost of production of Box Canyon Project power, cost of acquisition of Bonneville power, and market or resale value of this power.

Contacting the District's Financial Management

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate District accountability for the money it receives. For any questions about this report, or for additional or clarifying financial information, contact the District's financial department as set forth on the last page of this Annual Report under Organizational Information—Corporate Office.

April D. Owen, CPA
Director, Audit, Finance & Power Supply/Auditor

Combined Statements of Net Position

Public Utility District No. 1 of Pend Oreille County

| Assets and Deferred Outflows of Resources | Electric System | Box Canyon | | Community Network System | Combined Total | |
|---|-----------------|-------------------|--------------|--------------------------|--------------------|----------------|
| | | Production System | Water System | | as of December 31, | |
| | | | | | 2019 | 2018 |
| Current Assets | | | | | | |
| Cash and cash equivalents | \$ 6,810,524 | \$ 22,276,118 | \$ - | \$ 710,764 | \$ 29,797,406 | \$ 27,707,175 |
| Restricted cash and cash equivalents | 22,116,284 | 6,666,962 | - | 208,555 | 28,991,801 | 26,815,461 |
| Restricted short-term investments | 11,317,360 | 10,080,175 | - | - | 21,397,535 | 22,406,402 |
| Receivables | | | | | | |
| Accounts and contracts, net | 893,837 | - | 16,028 | 196,422 | 1,106,287 | 1,442,405 |
| Other | 377,152 | 1,682 | 18,089 | 21,534 | 418,457 | 245,299 |
| Unbilled revenue | 826,235 | - | - | - | 826,235 | 883,802 |
| Materials and supplies | 1,592,007 | 170 | 45,084 | 726,147 | 2,363,408 | 2,384,832 |
| Prepaid expenses and other | 373,918 | 50,559 | - | - | 424,477 | 326,822 |
| Due from other systems | 104,934 | 223,060 | - | - | - | - |
| Total current assets | 44,412,251 | 39,298,726 | 79,201 | 1,863,422 | 85,325,606 | 82,212,198 |
| Noncurrent Assets | | | | | | |
| Contracts and notes receivable | 3,122,791 | - | 54 | - | 118 | - |
| Nonutility plant | 4,917,744 | - | - | - | 4,917,744 | 5,089,521 |
| Licensing costs - regulatory asset | - | 4,536,937 | - | - | 4,536,937 | 4,981,813 |
| Long-term intersystem investment | - | 222,839 | - | - | - | - |
| Total noncurrent assets | 8,040,535 | 4,759,776 | 54 | - | 9,454,799 | 10,071,334 |
| Utility Plant | | | | | | |
| Land and land rights | 3,492,521 | 789,950 | 77,305 | 61,721 | 4,421,497 | 4,363,578 |
| Hydroelectric plant and equipment | 1,525,945 | 149,833,230 | - | - | 151,359,175 | 151,378,056 |
| Structures, buildings and equipment | 120,032,210 | - | 8,668,098 | 44,528,896 | 173,229,204 | 169,268,284 |
| Intangible assets | 864,530 | 13,250,547 | 742 | - | 14,115,819 | 14,115,819 |
| Construction work in progress | 2,059,490 | 45,953,474 | 18,794 | 142,442 | 48,174,200 | 47,116,555 |
| | 127,974,696 | 209,827,201 | 8,764,939 | 44,733,059 | 391,299,895 | 386,242,292 |
| Less accumulated depreciation and amortization | 70,519,568 | 37,858,778 | 4,045,862 | 18,440,588 | 130,864,796 | 120,736,722 |
| Net utility plant | 57,455,128 | 171,968,423 | 4,719,077 | 26,292,471 | 260,435,099 | 265,505,570 |
| Total assets | 109,907,914 | 216,026,925 | 4,798,332 | 28,155,893 | 355,215,504 | 357,789,102 |
| Deferred Outflows of Resources | | | | | | |
| Deferred amount on refinancing debt | 86,973 | 1,309,244 | - | - | 1,396,217 | 788,633 |
| Deferred pension outflows | 92,943 | 40,475 | 5,996 | 10,493 | 149,907 | 137,245 |
| Total deferred outflows of resources | 179,916 | 1,349,719 | 5,996 | 10,493 | 1,546,124 | 925,878 |
| Total assets and deferred outflows of resources | \$ 110,087,830 | \$ 217,376,644 | \$ 4,804,328 | \$ 28,166,386 | \$ 356,761,628 | \$ 358,714,980 |

Combined Statements of Net Position

Public Utility District No. 1 of Pend Oreille County

| Liabilities, Deferred Inflows of Resources, and Net Position | Electric System | Box Canyon Production System | Water System | Community Network System | Combined Total as of December 31, | |
|--|-----------------|------------------------------|--------------|--------------------------|-----------------------------------|----------------|
| | | | | | 2019 | 2018 |
| Current Liabilities | | | | | | |
| Accounts payable | \$ 2,540,247 | \$ 475,081 | \$ - | \$ - | \$ 3,015,328 | \$ 3,453,854 |
| Accrued compensation and benefits | 1,619,490 | - | - | - | 1,619,490 | 1,688,994 |
| Accrued taxes | 1,047,267 | 98,995 | 1,898 | 2,383 | 1,150,543 | 1,094,842 |
| Customer prepayments and deposits | 2,342,793 | - | 3,933 | 81,669 | 2,428,395 | 2,524,569 |
| Accrued bond interest | 92,596 | 2,957,866 | 270 | 52,555 | 3,103,287 | 2,916,925 |
| Current portion of long-term debt | 163,333 | 3,800,714 | 37,591 | 540,060 | 4,318,638 | 5,642,638 |
| Current portion of licensing cost | | | | | | |
| liability and unearned revenue | - | 2,522,758 | - | 49,588 | 2,572,346 | 667,070 |
| Due to other systems | - | - | 91,601 | 13,333 | - | - |
| Total current liabilities | 7,805,726 | 9,855,414 | 135,293 | 739,588 | 18,208,027 | 17,988,892 |
| Other Liabilities | | | | | | |
| Unearned revenue | 11,132,922 | - | - | 3,539,546 | 11,616,408 | 11,673,883 |
| Licensing costs liability | - | 4,536,937 | - | - | 4,536,937 | 4,981,813 |
| Contract security liability | 10,310,899 | 1,001,929 | - | - | 11,312,828 | 10,777,172 |
| Net pension liability | 1,883,779 | 820,356 | 121,534 | 212,685 | 3,038,354 | 4,285,255 |
| Total other liabilities | 23,327,600 | 6,359,222 | 121,534 | 3,752,231 | 30,504,527 | 31,718,123 |
| Long-term Debt | | | | | | |
| Revenue bonds | 9,443,632 | 144,791,433 | - | 2,614,839 | 156,627,065 | 162,369,455 |
| Other long-term debt | 66,667 | - | 22,436 | - | 89,103 | 140,029 |
| Due to other systems | - | - | - | 66,667 | - | - |
| Total long-term debt | 9,510,299 | 144,791,433 | 22,436 | 2,681,506 | 156,716,168 | 162,509,484 |
| Total liabilities | 40,643,625 | 161,006,069 | 279,263 | 7,173,325 | 205,428,722 | 212,216,499 |
| Deferred Inflows of Resources | | | | | | |
| Deferred pension inflows | 1,063,309 | 463,054 | 68,601 | 120,051 | 1,715,015 | 1,628,451 |
| Total deferred inflows of resources | 1,063,309 | 463,054 | 68,601 | 120,051 | 1,715,015 | 1,628,451 |
| Net Position | | | | | | |
| Net investment in capital assets | 52,360,205 | 24,685,520 | 4,659,050 | 23,083,259 | 104,788,034 | 101,293,412 |
| Restricted for | | | | | | |
| Sullivan contract obligation | 740,766 | - | - | - | 740,766 | 606,158 |
| Debt service | 1,156,460 | 13,789,271 | - | 156,000 | 15,101,731 | 17,657,985 |
| Rate stabilization fund | 10,000,000 | - | - | - | 10,000,000 | 6,800,000 |
| Total restricted | 11,897,226 | 13,789,271 | - | 156,000 | 25,842,497 | 25,064,143 |
| Unrestricted | 4,123,465 | 17,432,730 | (202,586) | (2,366,249) | 18,987,360 | 18,512,475 |
| Total net position | 68,380,896 | 55,907,521 | 4,456,464 | 20,873,010 | 149,617,891 | 144,870,030 |
| Total liabilities, deferred inflows of resources, and net position | \$ 110,087,830 | \$ 217,376,644 | \$ 4,804,328 | \$ 28,166,386 | \$ 356,761,628 | \$ 358,714,980 |

See accompanying notes

Combined Statements of Revenue, Expenses and Changes in Net Position

Public Utility District No. 1 of Pend Oreille County

| Combined Statements of Revenue, Expenses, and Changes in Net Position | Electric System | Box Canyon Production System | Water System | Community Network System | Combined Total Year ended December 31, | |
|--|--------------------|------------------------------------|------------------|--------------------------------|---|--------------------|
| | | | | | 2019 | 2018 |
| Operating Revenues | | | | | | |
| Sales to retail customers | | | | | | |
| Ponderay Newsprint Company | \$ 31,142,954 | \$ - | \$ - | \$ - | \$ 31,142,954 | \$ 30,112,591 |
| Other retail customers | 17,435,659 | - | 464,129 | 2,194,209 | 20,093,997 | 19,420,495 |
| Sales to other utilities | 4,603,563 | - | - | - | 4,603,563 | 4,573,930 |
| Intersystem sales | 141,325 | 19,421,174 | - | 283,808 | - | - |
| Contributed capital | 1,190,550 | - | 4,485 | 239,153 | 1,434,188 | 1,010,454 |
| Other | 368,031 | 6,600 | 81,795 | 39,080 | 258,738 | 435,817 |
| Total operating revenues | 54,882,082 | 19,427,774 | 550,409 | 2,756,250 | 57,533,440 | 55,553,287 |
| Operating Expenses | | | | | | |
| Power costs | 34,409,722 | 176,239 | - | - | 15,164,787 | 14,892,569 |
| Operations and maintenance | 6,231,156 | 6,682,501 | 329,692 | 921,201 | 13,792,323 | 12,401,854 |
| Administrative and general | 3,824,949 | 2,458,179 | 180,528 | 242,643 | 6,416,625 | 7,530,179 |
| Taxes | 2,784,673 | 103,372 | 23,451 | 15,057 | 2,926,553 | 2,864,971 |
| Pension expense (credit) | (727,260) | (316,710) | (46,919) | (82,110) | (1,172,999) | (1,125,517) |
| Depreciation and amortization | 4,143,667 | 3,587,896 | 204,320 | 2,450,098 | 10,385,981 | 10,277,401 |
| Total operating expenses | 50,666,907 | 12,691,477 | 691,072 | 3,546,889 | 47,513,270 | 46,841,457 |
| Net operating revenues (expenses) | 4,215,175 | 6,736,297 | (140,663) | (790,639) | 10,020,170 | 8,711,830 |
| Nonoperating Revenues (Expenses) | | | | | | |
| Interest income | 265,796 | 569,885 | 1,650 | 8,841 | 771,669 | 702,063 |
| Interest on debt | (460,459) | (6,510,760) | (1,722) | (35,908) | (6,936,621) | (7,350,708) |
| Subsidies on debt | - | 686,792 | - | - | 686,792 | 1,609,575 |
| AFUDC interest | - | - | - | - | - | 1,359,068 |
| Sullivan net expense | (37,169) | - | - | - | (37,169) | (39,350) |
| Other, net | 243,020 | - | (2,275) | - | 243,020 | (250,854) |
| Total nonoperating revenues (expenses) | 11,188 | (5,254,083) | (2,347) | (27,067) | (5,272,309) | (3,970,206) |
| Change in net position | 4,226,363 | 1,482,214 | (143,010) | (817,706) | 4,747,861 | 4,741,624 |
| Accumulated Net Position | | | | | | |
| Beginning of year | 64,154,533 | 54,425,307 | 4,599,474 | 21,690,716 | 144,870,030 | 140,128,406 |
| End of year | \$ 68,380,896 | \$ 55,907,521 | \$ 4,456,464 | \$ 20,873,010 | \$ 149,617,891 | \$ 144,870,030 |

See accompanying notes.

Combined Statements of Cash Flows

Public Utility District No. 1 of Pend Oreille County

| | Electric System | Box Canyon Production System | Water System | Community Network System | Combined Total Year ended December 31, | |
|---|--------------------|------------------------------------|-----------------|--------------------------------|---|---------------|
| | | | | | 2019 | 2018 |
| Combined Statements of Cash Flows | | | | | | |
| Cash Flows from Operating Activities | | | | | | |
| Receipts from customers | \$ 50,182,230 | \$ - | \$ 474,542 | \$ 2,459,275 | \$ 53,116,047 | \$ 53,731,460 |
| Receipts from other operating revenues | 4,638,841 | 6,600 | 69,411 | - | 4,714,852 | 4,874,087 |
| Payments to suppliers for goods and services | (21,035,912) | (3,368,800) | (120,357) | (133,602) | (24,658,671) | (26,614,362) |
| Payments to employees for services | (7,549,610) | (3,769,876) | (377,920) | (845,702) | (12,543,108) | (13,085,376) |
| Payments to (from) other systems | (19,259,822) | 19,091,533 | 13,023 | 155,266 | - | - |
| Net cash from operating activities | 6,975,727 | 11,959,457 | 58,699 | 1,635,237 | 20,629,120 | 18,905,809 |
| Cash Flows from Noncapital Financing Activities | | | | | | |
| Nonoperating asset receipts from revenues | 126,722 | - | - | - | 126,722 | 119,380 |
| Intersystem financing | 148,163 | - | (637) | (147,526) | - | - |
| Net cash from noncapital financing activities | 274,885 | - | (637) | (147,526) | 126,722 | 119,380 |
| Cash Flows From Capital and Related Financing Activities | | | | | | |
| Acquisition and construction of capital assets | (3,824,767) | (610,603) | (18,533) | (476,175) | (4,930,078) | (24,802,951) |
| Proceeds from sale of assets | 279,733 | - | - | - | 279,733 | 30,607 |
| Proceeds from issuance of revenue bond | 9,638,619 | 34,276,304 | - | - | 43,914,923 | 90,303,080 |
| Proceeds from issuance of note payable | - | - | - | - | - | 8,507,056 |
| Change of deferred revenue | - | - | - | (49,588) | (49,588) | (49,588) |
| Payments on revenue bonds | (12,548,134) | (38,247,512) | - | (643,622) | (51,101,645) | (64,450,969) |
| Interest paid on revenue bonds | (725,492) | (6,540,465) | - | (41,844) | (7,235,573) | (8,455,205) |
| Subsidy received on revenue bonds | - | 686,792 | - | - | 686,792 | 1,609,574 |
| Scheduled payments on notes payable | (13,333) | - | (37,593) | - | (50,926) | (18,694,869) |
| Interest paid on notes payable | - | - | (1,936) | - | (1,936) | (254,399) |
| Net cash from capital and related financing activities | (7,193,374) | (10,435,484) | (58,062) | (1,211,229) | (18,488,298) | (16,257,664) |
| Cash Flows from Investing Activities | | | | | | |
| Purchases of investments | (339,339) | (3,389,656) | - | - | (3,728,995) | (7,695,761) |
| Sales and maturities of investments | 1,405,520 | 4,159,073 | - | - | 5,226,971 | 9,013,118 |
| Gain on sale of investments | - | - | - | - | - | 36,253 |
| Interest on investments, contracts, and notes | 229,311 | 335,128 | - | 8,841 | 501,052 | 416,350 |
| Net cash from investing activities | 1,295,492 | 1,104,545 | - | 8,841 | 1,999,028 | 1,769,960 |
| Net Change in Cash and Cash Equivalents | 1,352,730 | 2,628,518 | - | 285,323 | 4,266,572 | 4,537,485 |
| Cash and Cash Equivalents | | | | | | |
| Beginning of year | 27,574,078 | 26,314,562 | - | 633,996 | 54,522,635 | 49,985,150 |
| End of year | \$ 28,926,808 | \$ 28,943,080 | \$ - | \$ 919,319 | \$ 58,789,207 | \$ 54,522,635 |

See accompanying notes.

Combined Statements of Cash Flows

Public Utility District No. 1 of Pend Oreille County

| Reconciliation of Net Operating Revenues (Expenses) to Cash Flows from Operating Activities | Electric System | Box Canyon Production System | Water System | Community Network System | Combined Total Year ended December 31, | |
|--|------------------------|-------------------------------------|---------------------|---------------------------------|---|---------------|
| | | | | | 2019 | 2018 |
| Net operating revenues (expenses) | \$ 4,215,175 | \$ 6,736,297 | \$ (140,663) | \$ (790,639) | \$ 10,020,170 | \$ 8,711,830 |
| Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities: | | | | | | |
| Depreciation and amortization | 4,143,667 | 3,587,896 | 204,320 | 2,450,098 | 10,385,981 | 10,277,401 |
| Changes in operating assets and liabilities | | | | | | |
| Receivables | 148,360 | - | 13,908 | 573 | 162,841 | 1,627,416 |
| Unbilled revenue | 57,567 | - | - | - | 57,567 | 71,871 |
| Due to (from) other systems | (28,273) | - | 28,273 | - | - | - |
| Materials and supplies | 182,322 | 36,096 | (1,024) | 62,114 | 279,508 | 169,016 |
| Prepaid expenses and other current assets | (104,268) | 6,675 | - | - | (97,593) | 60,109 |
| Deferred relicensing costs | - | 1,905,276 | - | - | 1,905,276 | (118,758) |
| Pension | (727,260) | (316,710) | (46,919) | (82,110) | (1,172,999) | (1,125,517) |
| Accounts payable, customer deposits, and prepayments | (898,646) | 1,584 | 779 | (1,545) | (897,828) | (708,229) |
| Accrued compensation, benefits, and taxes | (12,917) | 2,343 | 25 | (3,254) | (13,803) | (59,330) |
| Net cash from operating activities | \$ 6,975,727 | \$ 11,959,457 | \$ 58,699 | \$ 1,635,237 | \$ 20,629,120 | \$ 18,905,809 |
| Supplemental Disclosure of Noncash Activities | | | | | | |
| Construction costs included in accounts payable | \$ - | \$ 363,128 | \$ - | \$ - | \$ 363,128 | \$ - |

See accompanying notes

Statements of Fiduciary Net Position and Changes in Fiduciary Net Position – Pension Fund

Public Utility District No. 1 of Pend Oreille County

Statement of Fiduciary Net Position - Pension Fund

| as of December 31 | 2019 | 2018 |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 1,823,662 | \$ 1,771,530 |
| Investments | 7,226,645 | 6,388,555 |
| Participant loans receivable | 46,943 | 71,545 |
| Total assets | \$ 9,097,250 | \$ 8,231,630 |
| Liabilities | | |
| Contributions payable | \$ - | \$ - |
| Total liabilities | - | - |
| Net Position | | |
| Restricted | 9,097,250 | 8,231,630 |
| Total net position | 9,097,250 | 8,231,630 |
| Total liabilities and net position | \$ 9,097,250 | \$ 8,231,630 |

Statement of Changes in Fiduciary Net Position - Pension Fund

| for the year ended December 31 | 2019 | 2018 |
|---|---------------------|---------------------|
| Additions | | |
| Employer contributions | \$ 129,318 | \$ 141,521 |
| Employee contributions | 115,447 | 133,724 |
| Rollover contributions | 21,526 | 1,214,601 |
| Interest income on participant loans | 3,686 | 5,447 |
| Net increase (decrease) in fair value of assets | 1,414,395 | (347,587) |
| Total additions | 1,684,372 | 1,147,706 |
| Deductions | | |
| Benefits paid to or for participants | 791,575 | 1,225,128 |
| Default on participant loans | 22,961 | 5,737 |
| Administrative expense | 4,216 | 5,186 |
| Total deductions | 818,752 | 1,236,051 |
| Change in net position | \$ 865,620 | \$ (88,345) |
| Accumulated Net Position | | |
| Beginning of year | 8,231,630 | 8,319,975 |
| End of year | \$ 9,097,250 | \$ 8,231,630 |

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Note 1 - Organization and Significant Accounting Policies

Organization - Public Utility District No. 1 of Pend Oreille County, Washington (the District) is a municipal corporation governed by an elected three-person board of commissioners. The District's reporting entity consists of four primary component units, or operating systems. The Electric System distributes electricity to residential and other consumers in Pend Oreille County. The Box Canyon Production System produces hydroelectric power from the Box Canyon Hydroelectric Project (the Box Canyon Project). The Water System consists of nine individual water distribution subdivisions. The Community Network System supplies wholesale broadband communication services. The District is required by various financing and contractual arrangements to report separately on each system and maintain each system as a separate entity with separate obligations.

As required by generally accepted accounting principles (GAAP), management has considered all potential component units in defining the reporting entity and has no component units.

Basis of accounting and presentation - The accounting policies of the District conform to GAAP as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of the Revised Code of Washington, Chapter 43.09; the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System, Box Canyon Production System, and Community Network System; and the Uniform System of Accounts for Class C Water Utilities prescribed by the National Association of Regulatory Utility Commissioners for the Water System.

System columns presented in the financial statements do not sum to the combined totals due to the elimination of certain intersystem transactions. These transactions relate to intersystem power and broadband sales and purchases, loan balances and interest on intersystem loans, and intersystem administrative charges.

A summary of other significant accounting policies used in the preparation of the combined financial statements follows.

New accounting standards -In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, addressing accounting and financial reporting for legally enforceable liabilities associated with the retirement of a tangible capital asset. This statement is effective for financial statement reporting periods beginning after June 15, 2018. The District did not identify any material liabilities associated with this Statement.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, to improve the guidance regarding the identification of fiduciary activities for financial reporting purposes. This statement is effective for financial statements for fiscal years beginning after December 15, 2018. The District has identified a fiduciary activity and added fiduciary fund statements and further disclosure in Note 6.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, to improve the information that is disclosed in notes to government financial statements related to debt. This statement is effective for financial statements for fiscal years beginning after June 15, 2018. Adoption of this statement has not added any additional debt disclosures to the District's financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. The District has early adopted this statement effective January 1, 2019 and expensed all interest relating to construction projects for 2019. Per the statement, application is applied prospectively and therefore there is no prior year adjustment of capitalized interest.

Revenue recognition and unbilled revenue - The Electric System, Water System, and Community Network System recognize revenue as earned on a monthly basis based on rates established by the District's board of commissioners

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

and, for the Electric System, in accordance with power sales contracts with Ponderay Newsprint Company (Note 5). The District estimates unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31, and records that amount as unbilled revenue for the current year. The Box Canyon Production System recognizes revenue on a cost-of-service basis from sales to the Electric System.

Allowance for uncollectible accounts - Management reviews accounts receivable on a regular basis to determine whether any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances of customers who may be unable to meet their financial obligations, and a reserve based on historical experience. The reserve amount for the years ended December 31, 2019 and 2018 was \$21,000 for each year.

Cash and cash equivalents - For purposes of the combined statements of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted cash and investments - Restricted cash and investments are amounts designated by a third party for a specific purpose (Note 2). Examples of these assets include amounts held to pay debt service, bond funds designated for construction, and deposits made by vendors.

Investments - The District records investments at fair value based on quoted market rates, with changes in unrealized gains and losses reported as investment income.

Materials and supplies - Materials and supplies are recorded at average cost.

Utility plant - Utility plant assets are stated at cost. Betterments and major renewals over \$5,000 are capitalized, whereas maintenance and repairs are charged to operations as incurred. Depreciation is determined by the straight-line method over the estimated useful lives of the related assets, which range from 5 to 50 years. Composite rates are used for asset group depreciation, and, accordingly, no gain or loss is recorded on the disposition of an asset unless it represents a large and unusual retirement.

Nonutility plant - Nonutility plant represents capital assets that do not directly relate to the District's primary business purposes (Note 8).

Contributed capital - Contributions in aid of construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. The payments are initially recorded as liabilities, and then reclassified to operating revenue (contributed capital) when the associated facilities are constructed or acquired.

Licensing costs liability - Certain Box Canyon FERC licensing conditions require payments to various outside entities for projects and operating costs that will not be directed by, or controlled by, the District. The District has estimated and present valued these payments over the 50-year license and recorded them as a regulatory asset and licensing costs liability.

The District has not recorded the future costs of the remaining expenses related to license implementation that will be capitalized or expensed, as may be appropriate, when incurred.

Unamortized bond discounts and premiums - Unamortized bond discounts and premiums are amortized to interest expense, using the effective interest method, over the term of the bonds (Note 4). The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized to expense over the shorter of the remaining life of the old bonds or the life of the new issue and recorded as deferred outflows of resources.

Unearned revenue - In August 2000, the District entered into an agreement with Seattle City Light concerning a cost-sharing arrangement for building fiber optic communications capability in Pend Oreille County. Among other terms and conditions, the District retained ownership of all constructed network assets with a commitment to grant Seattle City Light a 30-year right-of-use for 8 to 12 dark fiber strands along the District's network backbone. Seattle City Light

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

made a one-time, lump-sum payment of \$1,487,650 under the agreement. The District recorded this payment as unearned revenue and is amortizing the balance to Community Network System revenue on a straight-line basis over the 30-year life of the agreement. The unamortized balance was \$533,074 and \$582,663 as of December 31, 2019 and 2018, respectively.

The Community Network System unearned revenue includes an Electric System \$4.25 million prepayment for future broadband services. Funds from the Electric System were used by the Community Network System as the matching cash requirement of an American Recovery and Reinvestment Act grant. The unamortized balance associated with this payment was \$3,056,060 and \$3,200,840 as of December 31, 2019 and 2018, respectively.

In June 2013, the District signed a Memorandum of Agreement between the District and the State of Washington Department of Ecology Office of Columbia River that committed the District to release water from Sullivan Lake according to predetermined periods and amounts to allow for improved water access for communities along the Columbia River. The Office of Columbia River paid the District \$14 million, which was recorded as unearned revenue, and is being recognized as nonoperating revenue in an amount equal to the net cash outflow for Sullivan Project-related activities each year. The unamortized balance as of December 31, 2019 and 2018 was \$11,132,922 and \$11,140,808, respectively.

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation; borrowed monies not yet spent, as held in restricted construction and acquisition funds; and outstanding debt balances related to the purchase or construction of capital assets.

Restricted net position - Amounts presented as restricted net position are constrained by provisions imposed by external parties and cannot be used for normal operations. Balances currently classified as restricted include bond principal and interest due for the upcoming year, less unfunded accrued interest; construction and acquisition funds net of the unspent portion of debt proceeds; bond reserve funds; funds reserved for use in the event that the District loses a major source of revenue; and deposits made by major customers net of the deposit due to these customers.

Unrestricted net position - Amounts included as unrestricted net position do not meet the definition of either net investment in capital assets or restricted net position, and are used for normal operations.

Compensated absences - Employees accrue personal leave to be used for vacation, sick, and family leave purposes. Annual leave granted to each employee varies in accordance with years of service and may be carried forward from year to year, capped at a maximum bank of 1,200 hours for employees hired before April 2011 or 700 hours for employees hired after March 2011. The District records the cost of personal leave as earned, not as taken.

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

Significant risks and uncertainties - The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions; collective bargaining labor disputes; changing local and national economic conditions; fish and other Endangered Species Act issues; Environmental Protection Agency regulations; reliability standards issued by the North American Electric Reliability Corporation; federal government regulations or orders concerning the operation, maintenance, licensing, and license surrender of hydroelectric facilities; the financing and completion of significant capital projects; changing federal and state laws, regulations, and requirements; concentration risk in the form of sales to a major customer, Ponderay Newsprint Company, and related potential impact on District power contracts (Note 5); and market and credit risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Reclassifications - Certain reclassifications may be made to the prior-year financial statement presentation to conform to the current-year presentation.

Note 2 - Cash and Investments

Cash and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third-party contractual agreements.

As of December 31, 2019, the District held the following cash and investments:

| Type | Electric System | Box Canyon Production System | Water System | Community Network System | Combined Total as of December 31, | |
|-----------------------------------|----------------------|------------------------------------|-----------------|--------------------------------|--------------------------------------|----------------------|
| | | | | | 2019 | 2018 |
| Cash deposits | \$ 17,053,120 | \$ 9,536,516 | \$ - | \$ 919,319 | \$ 27,508,955 | \$ 23,954,792 |
| Local government investment pool | 11,873,688 | 19,406,564 | - | - | 31,280,252 | 30,567,844 |
| U.S. Treasuries, at market | 11,317,360 | 10,080,175 | - | - | 21,397,535 | 22,406,402 |
| Total Cash and Investments | \$ 40,244,168 | \$ 39,023,255 | \$ - | \$ 919,319 | \$ 80,186,742 | \$ 76,929,038 |

The table below reconciles the cash, cash equivalents and investments listed above to the combined statements of net position:

| | Electric System | Box Canyon Production System | Water System | Community Network System | Combined Total as of December 31, | |
|--------------------------------------|----------------------|------------------------------------|-----------------|--------------------------------|--------------------------------------|----------------------|
| | | | | | 2019 | 2018 |
| Unrestricted cash & cash equivalents | | | | | | |
| Revenue funds | \$ 6,810,524 | \$ 22,276,118 | \$ - | \$ 710,764 | \$ 29,797,406 | \$ 27,707,175 |
| Restricted cash & cash equivalents | | | | | | |
| Bond principal and interest | 242,596 | 6,666,962 | - | 208,555 | 7,118,113 | 8,260,429 |
| Construction and acquisition | - | - | - | - | - | 8,066 |
| Contract obligation | 11,873,688 | - | - | - | 11,873,688 | 11,746,966 |
| Rate stabilization | 10,000,000 | - | - | - | 10,000,000 | 6,800,000 |
| Subtotal | \$ 22,116,284 | \$ 6,666,962 | \$ - | \$ 208,555 | \$ 28,991,801 | \$ 26,815,461 |
| Restricted short-term investments | | | | | | |
| Bond reserve | 1,006,461 | 10,080,175 | - | - | 11,086,636 | 12,313,997 |
| Contract security | 10,310,899 | - | - | - | 10,310,899 | 10,092,405 |
| Subtotal | \$ 11,317,360 | \$ 10,080,175 | \$ - | \$ - | \$ 21,397,535 | \$ 22,406,402 |
| Total Funds | \$ 40,244,168 | \$ 39,023,255 | \$ - | \$ 919,319 | \$ 80,186,742 | \$ 76,929,038 |

Interest rate risk - The District's investment policy limits investment maturities to less than five years from the date of purchase unless authorized by the General Manager and Director of Finance for a specific purpose. During 2019 and 2018, investments were held in federal agency securities, federal treasuries, or in the State Treasurer's Local Government Investment Pool (LGIP), described more fully in the following paragraph.

Credit risk - In accordance with the Revised Code of Washington, District bond resolutions, and District internal investment policies, all investments are direct obligations of the U.S. government, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the state of Washington. U.S. government securities are held by bank trust departments as the District's agent and in the District's name.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

The District's cash deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or protected against loss by deposit with financial institutions recognized as qualified public depositories of the state of Washington under the guidelines of the Washington State Public Deposit Protection Commission (PDPC). The District intends to hold time deposits and securities until maturity.

Concentration of credit risk - District policies allow the entire portfolio to be invested in direct U.S. government guaranteed obligations or in the LGIP. No other investment may exceed half of portfolio market value. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high-quality, short-term investments and is administered by the State Treasurer. The LGIP weighted-average maturity must not exceed 60 days and no single investment may exceed 762 days in maturity. The LGIP comprehensive annual financial report is available on the State Treasurer's website at: <https://tre.wa.gov>.

Custodial credit risk - The District's deposits are held by public depositories authorized by the PDPC and are not subject to custodial credit risk because state law requires public depositories to fully collateralize their public entity deposits.

Bond principal and interest accounts - For each debt issue, the District is required by bond resolutions to maintain principal and/or sinking fund and interest accounts within the bond funds to provide for the next semi-annual interest and annual principal/sinking fund payments falling due, which are reported as current assets. All bond funds are restricted by bond resolution to the payment of debt service obligations.

Bond reserve funds - Box Canyon Production System and Electric System revenue bond resolutions require that reserve accounts be maintained within the bond funds. The 2019 Electric System reserve account requires a deposit equal to 10% of the stated principal amount. The reserve requirement for all Box Canyon Bonds is the sum of the reserve requirement for each series, currently equal to the maximum annual debt service. All deposits are currently held in federal treasuries and money market cash accounts.

Construction and acquisition fund - Proceeds from the 2009, 2010, 2012 and 2018 bond issuances were deposited into separate Box Canyon Production System Construction and Acquisition Funds and are restricted to expenditures for the replacement of the Box Canyon Project turbines, plant modernization efforts, and other capital improvements to the Box Canyon Production System. All funds were expended as of December 31, 2019.

Contract obligation - The District is obligated through a Memorandum of Agreement to release water from Sullivan Lake. In exchange, the District has received funds from the Office of Columbia River (Note 8). Monies received are restricted to construction and operations and maintenance activities related to Sullivan Lake and associated facilities.

Contract security - As discussed in Note 5, the Ponderay Newsprint Company has elected to post a \$10 million contract security in lieu of a letter of credit. The contract security is subject to contractual provisions and the District's investment policy and, as of December 31, 2019 and 2018, was invested in a bank trust department deposit subject to PDPC protection.

Rate stabilization - The District's bond resolutions allow for the creation of a rate stabilization account within the District's revenue funds to affect the calculation of the District's bond debt service coverage covenant requirement. Monies deposited into the account are subtracted from net revenues used in the calculation of debt service coverage in the year deposited, and are added to net revenues in years that money is withdrawn from the account. The District deposited \$3,200,000 and \$2,200,000 into the rate stabilization account for the years ended December 31, 2019 and 2018, respectively.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Investments – The District holds investments that are measured at fair value as of December 31, 2019 and 2018. The District categorized its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, level 2 inputs are significant other observable inputs, and level 3 inputs are significant unobservable inputs. Investments in an external government investment pool, such as LGIP, are not subject to reporting within the level hierarchy.

| Investments by fair value level | Total as of December 31, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|-------------------------------------|--|---|--|
| Money market funds | \$ 18,391,685 | \$ - | \$ 18,391,685 | \$ - |
| U.S. agency securities | | | | |
| U.S. government and agency obligations | 3,005,850 | - | 3,005,850 | - |
| Total | \$ 21,397,535 | \$ - | \$ 21,397,535 | \$ - |

| Investments by fair value level | Total as of December 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|-------------------------------------|--|---|--|
| Money market funds | \$ 8,745,517 | \$ - | \$ 8,745,517 | \$ - |
| U.S. agency securities | | | | |
| U.S. government and agency obligations | 11,962,068 | - | 11,962,068 | - |
| Federal Home Loan Banks | 1,698,817 | - | 1,698,817 | - |
| Total | \$ 22,406,402 | \$ - | \$ 22,406,402 | \$ - |

Note 3 - Utility Plant

The following changes occurred in the District's utility plant for the years ended December 31, 2019 and 2018:

| | 2018 Balance | Additions | Retirements/ Transfers | 2019 Balance |
|---|-----------------------|-----------------------|---------------------------|-----------------------|
| Land and land rights | \$ 4,363,578 | \$ 65,847 | \$ (7,928) | \$ 4,421,497 |
| Hydroelectric plant and equipment | 151,378,056 | - | (18,881) | 151,359,175 |
| Structures, buildings, and equipment | 169,268,284 | 1,311,654 | 2,649,266 | 173,229,204 |
| Intangible assets | 14,115,819 | - | - | 14,115,819 |
| Construction work in progress | 47,116,555 | 4,232,866 | (3,175,221) | 48,174,200 |
| | 386,242,292 | 5,610,367 | (552,764) | 391,299,895 |
| Less accumulated depreciation and amortization | 120,736,722 | 10,385,981 | (257,907) | 130,864,796 |
| Net Utility Plant | \$ 265,505,570 | \$ (4,775,614) | \$ (294,857) | \$ 260,435,099 |

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

| | 2017 Balance | Additions | Retirements/ Transfers | 2018 Balance |
|--|----------------|--------------|---------------------------|----------------|
| Land and land rights | \$ 4,363,578 | \$ - | \$ - | \$ 4,363,578 |
| Hydroelectric plant and equipment | 150,185,682 | 28,437 | 1,163,937 | 151,378,056 |
| Structures, buildings, and equipment | 167,372,020 | 550,073 | 1,346,191 | 169,268,284 |
| Intangible assets | 13,975,293 | - | 140,526 | 14,115,819 |
| Construction work in progress | 34,472,087 | 16,339,348 | (3,694,880) | 47,116,555 |
| | 370,368,660 | 16,917,858 | (1,044,226) | 386,242,292 |
| Less accumulated depreciation and amortization | 111,358,153 | 10,277,401 | (898,832) | 120,736,722 |
| Net Utility Plant | \$ 259,010,507 | \$ 6,640,457 | \$ (145,394) | \$ 265,505,570 |

The District capitalized to utility plant, as an intangible asset, costs associated with seeking the current Box Canyon Project FERC license, including legal fees for continuing litigation of various license conditions. The District is amortizing the balance of the intangible asset over the remaining term of the license, which expires in 2055. Originally capitalized relicensing costs were \$12,472,232, with accumulated amortization of \$3,522,779 and \$3,271,272 as of December 31, 2019 and 2018, respectively.

Note 4 - Long-Term Debt

During the year ended December 31, 2019 the following changes occurred in long-term debt:

| Electric System | Balance | | | Balance | | Amounts due |
|--|---------------|--------------|---------------|--------------|--------|-----------------|
| Issue | Dec 31, 2018 | Additions | Reductions | Dec 31, 2019 | | within one year |
| 2010 Revenue and Refunding Bonds | \$ 12,465,000 | \$ - | \$ 12,465,000 | \$ - | \$ - | - |
| Due in annual installments through January 1, 2031; interest at 4.00% - 5.00%. | | | | | | |
| 2019 Revenue Refunding Bonds | \$ - | \$ 8,680,000 | \$ - | \$ 8,680,000 | \$ - | 150,000 |
| Due in annual installments through January 1, 2031; interest at 3.00% - 5.00%. | | | | | | |
| Subtotal | \$ 12,465,000 | \$ 8,680,000 | \$ 12,465,000 | \$ 8,680,000 | \$ - | 150,000 |
| Unamortized premiums (discounts) | (2,821) | 958,619 | 42,166 | 913,632 | - | - |
| Other long-term debt | 93,333 | - | 13,333 | 80,000 | 13,333 | - |
| Total Debt: | \$ 12,555,512 | \$ 9,638,619 | \$ 12,520,499 | \$ 9,673,632 | \$ - | 163,333 |

In October 2019, the District issued Electric System Revenue Refunding Bonds in the amount of \$8,680,000. Proceeds from the bonds were used to refund the 2010 Electric System Revenue and Refunding Bonds. The District recorded a deferred amount on refinancing of \$93,412, and is amortizing the balance using the effective interest method over the remaining life of the bonds. The refunding resulted in a net present value savings of \$1,518,188.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

| Box Canyon Production System | Balance | | | Balance | Amounts due |
|--|----------------|---------------|---------------|----------------|-----------------|
| Issue | Dec 31, 2018 | Additions | Reductions | Dec 31, 2019 | within one year |
| 2008 Clean Renewable Energy Tax Credit Bond (CREB) | \$ 287,143 | \$ - | \$ 95,714 | \$ 191,429 | \$ 95,714 |
| Due in annual installments through December 2021; interest at 1.35%. | | | | | |
| 2009 Revenue Bonds | 1,605,000 | - | 1,605,000 | - | - |
| Refinanced through 2018 Revenue and Refunding Bonds. Final principal payment of \$1,605,000 due January 1, 2019. | | | | | |
| 2010 Revenue Bonds | 34,110,000 | - | 34,110,000 | - | - |
| Due in annual installments through January 1, 2041; interest at 5.25% - 5.75%. | | | | | |
| 2012 Clean Renewable Energy Bonds | 26,785,000 | - | 2,155,000 | 24,630,000 | 2,155,000 |
| Due in annual installments through January 1, 2030; interest at 0.834% - 4.571% and subject to subsidy payment. | | | | | |
| 2018 Revenue and Refunding Bonds | 83,400,000 | - | - | 83,400,000 | 1,550,000 |
| Due in annual installments through 2048; interest at 5%. | | | | | |
| 2019 Revenue Refunding Bonds | - | 30,640,000 | - | 30,640,000 | - |
| Due in annual installments through 2041; interest at 3.0 - 5.0%. | | | | | |
| Subtotal | \$ 146,187,143 | \$ 30,640,000 | \$ 37,965,714 | \$ 138,861,429 | \$ 3,800,714 |
| Unamortized bond premiums | 6,775,684 | 3,636,305 | 560,760 | 9,851,229 | - |
| Unamortized bond discount | (478,837) | - | (358,326) | (120,511) | - |
| Total Debt: | \$ 152,483,990 | \$ 34,276,305 | \$ 38,168,148 | \$ 148,592,147 | \$ 3,800,714 |

In October 2019, the District issued Box Canyon Production System Revenue Refunding Bonds in the amount of \$30,640,000. Proceeds from the bonds were used to refund the 2010 Box Canyon Production System Revenue Bonds. The District recorded a deferred amount on refinancing of \$618,413, and is amortizing the balance using the effective interest method over the remaining life of the bonds. The refunding resulted in a net present value savings of \$8,050,654.

The District's Electric System and Box Canyon Production System revenue bonds require the District to establish, maintain and collect Electric System rates adequate to provide net revenues in an amount equal to at least 1.25 times the annual principal and interest due for each revenue bond. Box Canyon Production System revenue bonds are secured by revenues of the Electric System.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

| Water System | Balance | | | Balance | Amounts due |
|---|--------------|-----------|------------|--------------|-----------------|
| Issue | Dec 31, 2018 | Additions | Reductions | Dec 31, 2019 | within one year |
| Sunvale Water System | \$ 19,959 | \$ - | \$ 9,979 | \$ 9,980 | \$ 9,980 |
| Department of Community, Trade and Economic Development Loan | | | | | |
| Due in annual installments through October 2020; interest at 2.5%. | | | | | |
| Riverbend Water System | 44,036 | | 22,018 | 22,018 | 22,018 |
| Department of Community, Trade and Economic Development Loan | | | | | |
| Due in annual installments through October 2020; interest at 2.5%. | | | | | |
| Granite Shores Water System | 33,625 | | 5,596 | 28,029 | 5,593 |
| Public Works Board Loans | | | | | |
| Due in annual installments through October 2026; interest at 1%. | | | | | |
| Total Debt: | \$ 97,620 | \$ - | \$ 37,593 | \$ 60,027 | \$ 37,591 |

| Community Network System | Balance | | | Balance | Amounts due |
|---|--------------|-----------|------------|--------------|-----------------|
| Issue | Dec 31, 2018 | Additions | Reductions | Dec 31, 2019 | within one year |
| 2017 Revenue Bonds | \$ 3,015,000 | \$ - | \$ 306,000 | \$ 2,709,000 | \$ 317,000 |
| Due in semi-annual installments through January 1, 2027; interest at 3.88%. | | | | | |
| 2013 Revenue Bonds | 783,521 | - | 337,622 | 445,899 | 223,060 |
| Due in monthly installments through January 1, 2027; interest at the LGIP rate. | | | | | |
| Subtotal | \$ 3,798,521 | \$ - | \$ 643,622 | \$ 3,154,899 | \$ 540,060 |
| Due to other systems | 93,333 | - | 13,333 | 80,000 | 13,333 |
| Total Debt: | \$ 3,891,854 | \$ - | \$ 656,955 | \$ 3,234,899 | \$ 553,393 |

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Debt Service

The District's long-term debt requirements are as follows:

| | Electric System | | | Box Canyon Production System | | |
|-----------|-----------------|-----------|-----------|------------------------------|------------|------------|
| | Interest | Principal | Total | Interest | Principal | Total |
| 2020 | 278,246 | 163,333 | 441,579 | 6,178,775 | 3,800,714 | 9,979,489 |
| 2021 | 356,175 | 618,333 | 974,508 | 6,358,210 | 3,890,715 | 10,248,925 |
| 2022 | 325,175 | 648,333 | 973,508 | 6,191,482 | 3,890,000 | 10,081,482 |
| 2023 | 292,675 | 678,333 | 971,008 | 6,015,487 | 3,985,000 | 10,000,487 |
| 2024-2028 | 915,875 | 3,891,668 | 4,807,543 | 27,028,741 | 22,160,000 | 49,188,741 |
| 2029-2033 | 125,700 | 2,760,000 | 2,885,700 | 21,368,050 | 24,690,000 | 46,058,050 |
| 2034-2038 | - | - | - | 15,279,625 | 29,105,000 | 44,384,625 |
| 2039-2043 | - | - | - | 7,783,175 | 27,255,000 | 35,038,175 |
| 2044-2048 | - | - | - | 2,608,875 | 20,085,000 | 22,693,875 |

| | Community Network System | | | Water System | | |
|-----------|--------------------------|-----------|-----------|--------------|-----------|--------|
| | Interest | Principal | Total | Interest | Principal | Total |
| 2020 | 110,004 | 540,060 | 650,064 | 1,080 | 37,591 | 38,671 |
| 2021 | 92,343 | 554,839 | 647,182 | 224 | 5,593 | 5,817 |
| 2022 | 76,669 | 343,000 | 419,669 | 168 | 5,595 | 5,763 |
| 2023 | 63,225 | 356,000 | 419,225 | 112 | 5,595 | 5,707 |
| 2024-2027 | 107,612 | 1,361,000 | 1,468,612 | 113 | 5,653 | 5,766 |

Note 5 - Power Purchase Contractual Agreements

Ponderay Newsprint Company - In July 1986, the Electric System entered into power sales contracts with Ponderay Newsprint Company (PNC) to supply power to a fiber mill and paper plant. The District is obligated to provide all power necessary to operate both the fiber mill and paper plant. Power delivery under these contracts expires in 2027. In 2019, approximately 70% of Electric System retail energy deliveries and 58% of retail energy sale revenues were to PNC.

To fulfill this power commitment, the District delivers power from the Box Canyon Project and acquires power at cost from the Boundary Project as discussed later in this note. Power is also obtained from the Bonneville Power Administration (BPA) and other suppliers under various power purchase contracts. PNC is billed based upon the District's actual cost of service, as contractually defined, rather than under an industrial rate schedule.

PNC must provide the District \$10 million in security, either in the form of a letter of credit or deposit, which the District may draw upon in the event that PNC defaults its obligations under the contracts. Cash deposits are in a District-held trust account, and draws may only be made at the District's request.

The rate impact from a loss of PNC power sales cannot be forecasted accurately; it depends upon the interaction of many factors, including but not limited to existing cost of production of Box Canyon Project power, cost of acquisition of BPA and other power resources, and market or resale value of this power.

Seattle City Light - Boundary Hydroelectric Project - Seattle City Light owns and operates Boundary Hydroelectric Project (Boundary) located in northern Pend Oreille County. In Boundary's previous FERC license, the District was granted a licensed share of the Boundary Project equal to a 48-megawatt capacity. The Boundary Project was issued a new 42-year FERC license on March 20, 2013, in which the District was no longer granted a license share. During

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Public Utility District No. 1 of Pend Oreille County

2014, Seattle City Light and the District entered into a new agreement that extends the same operational parameters held under the previous license, including power deliveries capped at a 48-megawatt capacity and delivered at cost. The agreement term corresponds with Boundary's FERC license and expires in 2055.

Bonneville Power Administration - Effective October 1, 2011, the District renewed power purchase contracts with BPA for a 20-year period until September 30, 2028. At that time, the District received both Shaped Block purchases and Slice of the System purchases. Shaped Block purchases are predetermined monthly levels of power delivered consistently throughout the month.

The amount of power received varies from month to month, depending on the projected load levels and District power resources for each month. BPA currently delivers all power allocation through Shaped Block purchases, at an annual average of 24 megawatts. Future power allocations are dependent on the District's overall customer load. The risks and rewards associated with BPA purchases pass through to Ponderay Newsprint Company under the terms of the contracts with that customer.

Energy Northwest - The District is a participant in Energy Northwest's (formerly the Washington Public Power Supply System) Nuclear Project Nos. 1 and 3, both of which have terminated. The District purchased from Energy Northwest, and assigned to BPA, 0.087% of the capability of Project No. 1 and 0.078% of Energy Northwest's 70% ownership share of Project No. 3. Under the agreements, the District is unconditionally obligated to pay Energy Northwest its pro rata share of the total costs of the projects, including debt service, even though the projects are terminated. Under the Net Billing Agreements, BPA is responsible for assuming the District's cost obligation, and therefore the District had no direct payments in 2019 and 2018. The District's Electric System revenue requirements are not directly affected by the associated costs; revenue requirements are affected indirectly to the extent that the costs of the projects result in increases in BPA's wholesale power rates.

Portland General Electric - The District entered into a contract with Portland General Electric ("PGE") for the sale of all power generated from the Box Canyon Project in exchange for PGE's real-time provision of an identical amount of PGE system power to the District and payment to the District of a per-MW premium for delivered Box Canyon Project power based on the carbon-free attributes of such power. The premium is \$3.00 per MWh for the first 50 MWh of energy delivered and \$2.25 per MWh in excess of 50 MWh. The contract term is July 8, 2019 through December 31, 2020. Through an amendment to the Contracts dated July 2, 2019, PNC released and waived PNC's rights to Box Canyon Project output, as well as rights to Boundary power, for the term of the PGE contract.

Note 6 – Pension Plans

The District is a member of the Washington State Public Employees' Retirement System (PERS) cost-sharing plan. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan description - PERS was established in 1947 and its retirement benefit provisions are contained in Revised Code of Washington (RCW) chapters 41.34 and 41.40. PERS is a cost-sharing multiple-employer retirement system consisting of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component. PERS members include elected officials, state employees, employees of local governments, and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of

Notes to Combined Financial Statements

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Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

Benefits provided

PERS Plan 1 - Provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 consecutive highest-paid service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA).

PERS Plan 2/3 - PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits for are determined as two percent of the member's AFC times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service or after five years of service if 12 months of that service was earned after age 44.

Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65.

PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Plan 2/3 benefits include a cost-of-living adjustment (based on the Consumer Price Index), capped at three percent annually.

Contributions

PERS Plan 1 contributions - The PERS Plan 1 member contribution rate is established by statute at six percent. The employer contribution rate is developed by the Office of the State Actuary (OSA), adopted by the Pension Funding Council, and is subject to change by the Legislature.

PERS Plan 2/3 contributions - The PERS Plan 2/3 employer and employee contribution rates are developed by OSA to fully fund Plan 2 and the defined benefit portion of Plan 3. The rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The Plan 2/3 employer rates include a component to address the PERS Plan 1 unfunded actuarial accrued liability (UAAL).

Required contribution rates (expressed as a percentage of covered payroll) at the close of fiscal year 2019 were as follows:

| Actual Contribution Rates | Employer | Employee |
|---------------------------|----------|----------|
| PERS Plan 1 | 12.83% | 6.00% |
| PERS Plan 2/3 | 12.83% | 7.41% |
| PERS Plan 3 | 12.83% | 0% |

Both the District and the employees made the required contributions during fiscal years 2019 and 2018. The District's required employer contributions for the years ended December 31 were as follows:

Notes to Combined Financial Statements

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| Required Employer Contributions | 2019 | 2018 |
|---------------------------------|--------------|--------------|
| PERS Plan 1 | \$ 406,800 | \$ 434,106 |
| PERS Plan 2/3 | 631,957 | 643,488 |
| Total | \$ 1,038,757 | \$ 1,077,594 |

Investments - The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). The CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of WSIB-adopted investment policies for the various asset classes.

For the fiscal year ended June 30, 2019, the annual money-weighted rate of return on PERS Plan 1 pension investments, net of pension plan investment expense, was 8.68%. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows. The annual money-weighted rate of return on PERS Plan 2/3 pension investments, net of pension plan investment expense, was 8.89%

Pension costs - The District reports a liability for its proportionate share of each plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019. The District's proportion of the net pension liability was based on the contributions received by PERS during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERS' participating employers, as well as the statutorily required contributions required to fund the unfunded actuarial accrued liability. Below are the percentage proportionate shares of net pension liability, dollar value of each proportionate share of net pension liability, and the pension expense or credit recognized by the District for each respective plan.

| Proportionate Share of Plan Liability | PERS Plan 1 | PERS Plan 2/3 |
|---|-------------|---------------|
| Percent share as of June 30, 2019 | 0.059580% | 0.076934% |
| Percent share as of June 30, 2018 | 0.064363% | 0.082627% |
| Net pension liability as of December 31, 2019 | \$2,291,063 | \$747,291 |
| Pension expense (credit) recognized as of December 31, 2019 | (\$524,165) | (\$648,834) |

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At December 31, 2019, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources from the following sources:

| District's Proportionate Share of Plan Deferred Outflows and Inflows of Resources | PERS Plan 1 | | PERS Plan 2/3 | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual economic experience | \$ - | \$ - | \$ 214,100 | \$ (160,664) |
| Changes in actuarial assumptions | - | - | 19,136 | (313,538) |
| Difference between projected and actual investment earnings | - | (153,062) | - | (1,087,751) |
| Changes in proportion | - | - | (603,918) | - |
| Contributions paid to PERS subsequent to the measurement date | 196,665 | - | 323,924 | - |
| Difference between actual and proportionate employer contributions | - | - | - | - |
| Total | \$ 196,665 | \$ (153,062) | \$ (46,758) | \$ (1,561,953) |

The \$196,665 reported as deferred outflows of resources for PERS Plan 1 and \$323,924 reported as deferred outflows of resources for PERS Plan 2/3 related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the relevant plan in the year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to each plan will be recognized in pension expense as follows:

| Deferred Outflows and Inflows of Resources Recognized in Pension Expense | PERS Plan 1 | PERS Plan 2/3 |
|--|--------------|----------------|
| 2020 | \$ (33,789) | \$ (482,614) |
| 2021 | (80,037) | (675,378) |
| 2022 | (28,562) | (364,693) |
| 2023 | (10,674) | (249,613) |
| 2024 | - | (131,518) |
| 2025 and Thereafter | - | (28,818) |
| Total | \$ (153,062) | \$ (1,932,634) |

Actuarial assumptions - The total pension liability for each of the plans was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019, using the following actuarial assumptions applied to all prior periods included in the measurement:

| Actuarial Assumptions | |
|---------------------------|---|
| Inflation | 2.75% total economic inflation, 3.50% salary inflation |
| Salary increases | In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity |
| Investment rate of return | 7.40% |

Mortality rates were based on RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table", which the Society of Actuaries published. OSA applied offsets to the base table and recognized future improvements in

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mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results OSA's 2007-2012 Experience Study and the 2017 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report.

OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the WSIB provided.

The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return
- Standard deviation of the annual return
- Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times. The expected future rates of return (expected returns, net of pension plan investment expense, including inflation) are developed by the WSIB for each major asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2019, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------|-------------------|--|
| Fixed Income | 20.00% | 2.20% |
| Tangible Assets | 7.00% | 5.10% |
| Real Estate | 18.00% | 5.80% |
| Global Equity | 32.00% | 6.30% |
| Private Equity | 23.00% | 9.30% |

The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Discount rate - The discount rate used to measure the total pension liability was 7.40% for PERS Plan 1 and PERS Plan 2/3. To determine the discount rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.50% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40% future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS Plans 2 and 3). Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40% was applied to determine the total pension liability.

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Pension liability sensitivity - The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate of 7.40%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower (6.40%) or one percentage point higher (8.40%) than the current discount rate:

| District's Proportionate Share of Net Pension Liability Sensitivity | 1% Decrease in Discount Rate (6.40%) | Discount Rate (7.40%) | 1% Increase in Discount Rate (8.40%) |
|---|--|--------------------------|--|
| Proportionate share of the PERS Plan 1 net pension liability | \$ 2,869,140 | \$ 2,291,063 | \$ 1,789,504 |
| Proportionate share of the PERS Plan 2/3 net pension liability (asset) | \$ 5,731,423 | \$ 747,291 | \$ (3,342,519) |

The pension liability has been allocated to the operating systems based on a percentage of total payroll charged to each system. The total pension liability for each system as of December 31, 2019, is as follows:

| Proportionate Share of Plan Net Pension Liability | PERS Plan 1 | PERS Plan 2/3 | Total |
|--|--------------|---------------|--------------|
| Electric System | \$ 1,420,459 | \$ 463,320 | \$ 1,883,779 |
| Box Canyon Production System | 618,587 | 201,769 | 820,356 |
| Water System | 91,643 | 29,891 | 121,534 |
| Community Network System | 160,374 | 52,311 | 212,685 |
| Total | \$ 2,291,063 | \$ 747,291 | \$ 3,038,354 |

Pension plan fiduciary net position - Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued Washington State Department of Retirement Systems 2019 Comprehensive Annual Financial Report. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

Fiduciary trust funds - The District maintains a defined contribution plan in accordance with the Internal Revenue Code Section 401(a), which is reported in the financial statements as a fiduciary activity. The District serves as trustee for this single-employer defined contribution plan, which is administered by ICMA-RC. All District employees with 30 or more hours per week are eligible to participate in the plan.

The plan provides for an employer match of 50% of eligible employee deferral of employee straight-time wages, capped at a 2% employer match on a 4% employee deferral. District contributions and earnings for each employee are immediately fully vested. Employer contributions to this plan for 2019 and 2018 were \$129,318 and \$141,521, respectively, and are reported as expense within the balances on the Statement of Revenues, Expenses, and Changes in Net Position. All plan assets have been placed into trust for the exclusive benefit of plan participants and their beneficiaries.

Participants may draw a loan on their employee benefit account. Only one loan is allowed per employee per plan at a time. Loans incur a fixed interest rate of prime plus 0.5% that is set at the time of approval, and monthly principal and interest payments are made through District payroll deduction.

The 401(a) plan investments are reported at fair value. Investment options consist of mutual funds, bonds, and stocks. The District categorized its fair value measurements within the fair value hierarchy established by GAAP, which is based on the valuation inputs used to measure the fair value of an asset. Investments in the plan are deemed Level 1 inputs, which are quoted prices in active markets for identical assets.

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Savings plans - The District also maintains a deferred compensation plan in accordance with the Internal Revenue Code Section 457. The plan is administered by ICMA-RC, and has the same employee eligibility and contribution parameters as the 401(a) plan. Participants may draw a loan on their employee benefit account. Loans incur a fixed interest rate of prime plus 0.5% that is set at the time of approval, and monthly principal and interest payments are made through District payroll deduction.

The District maintains a Health Reimbursement Arrangement for employees. All plan assets have been placed into a multiple employer trust for the exclusive benefit of plan participants and their beneficiaries. Non-bargaining-unit employees receive a \$175 monthly contribution paid into individual employer-sponsored medical savings accounts to pay for eligible medical expenses, tax-free, whether incurred while employed or after retirement. Bargaining unit employees are eligible for a \$150 monthly contribution if they participate in District-sponsored wellness programs.

Note 7 - Self-Insurance

Public Utility Risk Management Services - The District is a member of the Public Utility Risk Management Services (PURMS) self-insurance fund. PURMS is a public entity risk pool and its members include 18 public utility districts and one non-profit mutual corporation. The objectives of PURMS are to formulate, develop, and administer a program of self-insurance in order to obtain lower costs for the various coverages provided to its members and to develop a comprehensive loss control program. The risks shared by the members are defined in the Self-Insurance Agreement (SIA). The fund consists of three pools for liability, property, and health and welfare coverage. The pools operate independently of one another. All members do not participate in all pools, and the District participates in the liability and property pools.

The District is a participant in the liability pool, which maintains a base self-insured retention level of \$1 million. In addition, the fund maintains \$35 million of excess general liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors and officers liability coverage with a retention level of \$500,000. The fund also maintains \$10 million in cyber security liability coverage with a retention level of \$500,000. The deductible is \$250.

The liability pool reserve balance is \$3.45 million. Liability assessments are levied to replenish the reserves to the designated level at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The District is also a participant in the property pool, which maintains a self-insured retention level of \$250,000. The property pool provides the District with \$200 million shared excess coverage, attaching at the self-insured retention level for all property risks excepting flood and earthquake, which attach at 2% of total insured value. Any gap between the self-insured level and excess insurance is funded half by the property pool and half by the affected member. The deductible varies but for most classes of property it is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000.

As a member, the District is subject to its share of excess premiums and assessments based on claims submitted by all members. The following premiums and assessments were charged during the years ended December 31:

| | Liability | | Property | |
|------------------------------|------------|------------|------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Electric System | \$ 168,394 | \$ 147,127 | \$ 37,916 | \$ 34,544 |
| Box Canyon Production System | 72,699 | 61,436 | 157,833 | 143,680 |
| Water System | 5,482 | 4,387 | 3,028 | 2,755 |
| Community Network System | 17,334 | 13,664 | 658 | 590 |
| Total | \$ 263,909 | \$ 226,614 | \$ 199,435 | \$ 181,569 |

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Central Washington Public Utilities - The District, with six other public utility districts, is a member of the Central Washington Public Utilities Unified Insurance Program and Trust, which is a self-insurance program providing medical, dental, life insurance, disability insurance, and similar benefits to member employees and families. Formed by a Declaration of Trust and an Interlocal Agreement under RCW Chapter 39.34, the trust is administered by a board of trustees consisting of an appointed trustee from each of the seven member districts. Further information may be obtained by contacting the District's financial department as set forth on the last page of this Annual Report under Organizational Information—Corporate Office.

Note 8 - Commitments and Contingencies

Box Canyon Project - The Federal Energy Regulatory Commission 50-year license for the District's Box Canyon Hydroelectric Project (Box Canyon Dam) expires on July 1, 2055. The license contains several conditions, including environmental studies and projects initiated by state and federal agencies and the Kalispel Tribe of Indians. All projects and studies are related to Box Canyon Dam and its reservoir and include the protection, mitigation, and enhancement of fish, wildlife, recreation, erosion, and cultural preservation. Capitalized projects have included upgrade of the Box Canyon Project turbines, spillway gate modification for total dissolved gas abatement, and construction of fish passage facilities currently in process. District-directed projects that are noncapital in nature, which are expensed as incurred, include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies. The license also requires payments to agencies that are used at the discretion of the receiving party, and are intended primarily for recreation and erosion, although the District has no control over the final disposition of the funds. These costs have been estimated over the life of the license and recorded as a regulatory asset and licensing costs liability (Note 1).

The District is currently constructing an upstream fish passage facility at Box Canyon Dam. The District has expended \$35 million of the \$36 million contracted cost of the project. Work on the upstream fish passage facility has extended beyond the contracted substantial completion date of October 31, 2018, and the District began withholding liquidated damages at the contractual rate of \$10,000 per day beginning November 1, 2018.

As of December 31, 2019, liquidated damages in the amount of \$4,260,000 have accrued, and are in excess of the Contractor's approved invoiced construction amounts since November 1, 2018 of \$1,001,929. Liquidated damages withheld from the Contractor's invoiced amounts are included as a liability on the District's combined statements of net position. Under GAAP guidance, the District has not recorded a gain contingency on the \$3.2 million beyond the construction price, but believes that the District is entitled to the full amount of liquidated damages.

Kalispel Tribe of Indians - The Box Canyon license includes language authorizing the District to use lands in the Kalispel Indian Reservation. Under a contract signed in 2007, payment to the Kalispel Tribe for use of their lands is based on costs to produce power at Box Canyon Dam. The Kalispel Tribe receives their payment in electrical energy, the amount of which is based on a formula using Box Canyon Dam production costs. The Kalispel Tribe chooses on an annual basis, in advance of the calendar year, to use the energy, require the District to sell the energy to a third party on the Kalispel Tribe's behalf at market prices, or require the District to purchase the power at cost of production. For 2019 and 2018, the Kalispel Tribe chose to have the District purchase the power at generation cost. Power sales on the Kalispel Tribe's behalf totaled \$230,007 and \$229,935 in 2019 and 2018, respectively.

In the spring of 2019, the District submitted a Box Canyon license amendment to FERC, outlining alternative mitigation activities in lieu of construction of downstream fish passage at Box Canyon dam and upstream and downstream fish passage at the District's Calispel Creek pumping project. In conjunction with the amendment, the District signed an agreement with the Kalispel Tribe of Indians to provide the mitigation activities. During 2019, the District accrued the first payment of \$2,000,000 due to the Kalispel Tribe of Indians upon FERC's approval of the amendment, which is expected by June 2020.

Sullivan Creek Project - The Electric System's Sullivan Creek Project consists of the Sullivan Creek Dam and Mill Pond Dam, an abandoned conduit, a forebay, and an empty powerhouse, and is currently used solely for water storage.

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The Sullivan Creek Project's 50-year FERC license expired in September 2008. In 2010, the District concluded a negotiated license surrender process outlining continued operation of the Sullivan Dam as a water storage facility and completion of various environmental projects to protect and enhance fish and wildlife habitat. Through an Interlocal Agreement between Seattle City Light and the District, Seattle City Light agreed to pay the full cost to remove the Mill Pond Dam and perform other restoration and environmental work as part of the relicensing conditions for Boundary Dam. Seattle City Light also agreed to pay half of the cost of construction of a cold water pipe, which drafts cooler water from the bottom of Sullivan Lake in an effort to lower the water temperature of an outlet creek. Once the terms and conditions of the negotiated agreement and FERC Surrender Order are met and approved by FERC, which is expected in 2022, the District will become eligible to receive a 30-year USFS permit to continue to operate Sullivan Dam as a water storage facility.

Concurrent with the license surrender process, the District contracted with Department of Ecology to sell certain Sullivan-related water rights to the state of Washington through the Department of Ecology Office of Columbia River, Columbia River Water Management Program. In exchange for the release of water from Sullivan Lake at designated times and amounts over the expected USFS permit 30-year life, the Department of Ecology Office of Columbia River paid the District \$14 million. Proceeds are expected to finance Sullivan Creek Project capital and operating, maintenance, and environmental expenditures for the entirety of a USFS 30-year license term to be issued after decommissioning of the project is fully complete. The proceeds are recorded as unearned revenue and being amortized annually in an amount equal to the net cash outflow for Sullivan Project-related activities each year. The monies are restricted to use for Sullivan Creek Project-related expenditures and reflected on the statement of net position within the contract security liability category.

Because there is no operating value for the District in owning the Sullivan Project assets, the District reports the net revenues and expenses as nonoperating. Asset values, including construction costs for the cold water pipe, are recorded net of accumulated depreciation as nonutility plant. The District reports no remaining license surrender liability. Although considered unlikely, the District retains risk that the associated parties will fail to perform their agreed-upon obligations and the District will incur a considerable liability associated with the license surrender.

Rental agreement - In 1997, the District entered into a rental agreement with the Pend Oreille County Port District for use of their railroad right-of-way related to a 115-kilovolt transmission line project. Under this agreement, the District agreed to pay a consumer price index-adjusted \$125,000 per year for a 20-year period commencing January 1, 1997, subject to termination by the District with a year's notice. In January 2017, the District extended the contract for a three year period, with a flat payment of \$200,000 in each year. The District paid \$200,000 under the terms of this agreement for 2019 and 2018, respectively.

Other contingencies - The District is subject to various claims, possible legal actions, and other matters arising out of the normal course of business. When it is possible to make a reasonable estimate of the District's liability with respect to probable claims, an appropriate provision is made. Although the ultimate outcome of litigation against the District cannot be determined, management intends to continually defend all claims against the District and believes the District is adequately reserved for all known events.

Note 9 - Northwest Open Access Network

The District, along with nine other Washington public utility districts and Energy Northwest, is a member of Northwest Open Access Network (NoaNet), a Washington nonprofit mutual corporation. NoaNet uses a high-speed fiber optic transmission system, largely located within Washington State, to provide Ethernet and other advanced telecommunications services on a wholesale basis to its members and retail telecommunications companies. NoaNet has first right-of-refusal to lease four strands, designated as public purpose, from fiber optic lines the BPA owns on transmission lines.

In December 2014, NoaNet established a \$13 million variable rate, junior lien, nonrevolving line of credit and transferred the balances of two previous lines of credit to the new note. The line was refinanced in March 2017 with a \$10.2 million term loan. The balance on the loan as of December 31, 2019 was \$6,548,148.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

NoaNet opened a \$5 million line of credit to fund capital expenditures in April 2017. In October 2018, NoaNet converted the \$5 million line of credit into a \$3 million term loan and a \$2 million line of credit. As of December 31, 2019, the term loan had a balance of \$2,600,693, and the line of credit had a balance of \$2,000,000.

In December 2019, NoaNet entered into a Member Payment Agreement whereby eight Members established a \$1.56 million line of credit. As of December 31, 2019, \$665,000 had been drawn on the line of credit. The District is not a Member Participant in this Agreement. NoaNet secured an additional \$665,000 term loan in December 2019, the balance of which at December 31, 2019 was \$665,000.

In 2018, NoaNet reported a net operating loss of \$8,267,908, \$549,517 of nonoperating expense, and a total decrease in net position of \$8,817,425. The 2019 audited financial statements were not available at the time of issuance of this report.

The District's Electric System reports no investment or liability account balance reflecting NoaNet membership.

A NoaNet annual report may be obtained by writing to Northwest Open Access Network, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335. NoaNet's website is available at www.noanet.net.

Note 10 - Grants

The District reports most grant revenue as nonoperating. Occasionally, grant proceeds are received in reimbursement for operating expenses, as in such cases the grant revenue is classified as operating.

Washington State Community Economic Revitalization Board (CERB) – In September, 2019, Washington State awarded a CERB grant in the amount of \$50,000 to perform a North Pend Oreille County Feasibility Study. The study will assist the District in determining the cost to expand broadband facilities to homes in north Pend Oreille County. The CERB grant has a local match requirement of \$17,000. The District had no expenditures for this project as of December 31, 2019.

Washington State Public Works Board – In December, 2019, Washington State Public Works Board awarded the District a feasibility study grant in the amount of \$50,000. The funds from this grant will be used in conjunction with the CERB grant funds for the North Pend Oreille County Feasibility Study. The District had no expenditures for this project as of December 31, 2019.

Washington State Community Development Block Grant (CDBG) – In December, 2019, Washington State Department of Commerce awarded the Town of Metaline Falls, with the District as sub-recipient, a CDBG grant to replace approximately 5,100 feet of water piping for the Metaline Falls water system project. The District had no expenditures for this project as of December 31, 2019.

Note 11 – Subsequent Events

In March 2020, the State of Washington was declared an area of major disaster due to the rapid circulation of the novel coronavirus (COVID-19). Drastic federal, state and local measures were taken to slow the spread of the virus throughout the community, affecting the District's operations and customer revenue. As described in Note 5, approximately 70% of Electric System retail energy deliveries and 58% of retail energy sale revenues were with one major customer that could be negatively impacted from the loss of the customer or declined demand. Due to the nature and timing of the pandemic events, an estimate of the financial impact to the District cannot be made for these financial statements.

Required Supplementary Information

Public Utility District No. 1 of Pend Oreille County

Schedule of Proportionate Share of Net Pension Liability as of June 30

| | <u>Employer's proportionate share of the net pension liability</u> | | <u>Employer's covered employee payroll</u> | | <u>Employer's proportion of the net pension liability (asset)</u> | |
|------|--|--------------|--|--------------|---|-----------|
| | PERS 1 | PERS 2/3 | PERS 1 | PERS 2/3 | PERS 1 | PERS 2/3 |
| 2019 | \$ 2,291,063 | \$ 747,291 | \$ 8,362,937 | \$ 8,362,937 | 0.059580% | 0.076934% |
| 2018 | \$ 2,874,473 | \$ 1,410,782 | \$ 8,571,106 | \$ 8,571,106 | 0.064363% | 0.082627% |
| 2017 | \$ 3,197,754 | \$ 3,011,819 | \$ 8,498,422 | \$ 8,498,422 | 0.067391% | 0.086683% |
| 2016 | \$ 4,115,660 | \$ 4,944,091 | \$ 9,167,431 | \$ 9,167,431 | 0.076635% | 0.098196% |
| 2015 | \$ 4,320,539 | \$ 3,811,237 | \$ 9,471,100 | \$ 9,471,100 | 0.082596% | 0.106666% |
| 2014 | \$ 3,939,563 | \$ 2,035,268 | \$ 8,618,199 | \$ 8,618,199 | 0.078204% | 0.100688% |

| | <u>Employer's proportionate share of net pension liability as a percentage of covered employee payroll</u> | | <u>Plan fiduciary net position as a percentage of the total pension liability</u> | |
|------|--|----------|---|----------|
| | PERS 1 | PERS 2/3 | PERS 1 | PERS 2/3 |
| 2019 | 27.40% | 8.94% | 67.12% | 97.77% |
| 2018 | 33.54% | 16.46% | 63.22% | 95.77% |
| 2017 | 37.63% | 35.44% | 61.24% | 90.97% |
| 2016 | 44.89% | 53.93% | 57.03% | 85.82% |
| 2015 | 45.62% | 40.24% | 59.10% | 89.20% |
| 2014 | 45.71% | 23.62% | | |

Schedule of Employer Contributions as of December 31

| PERS 1 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Statutorily or contractually required contributions | \$ 406,800 | \$ 434,106 | \$ 416,156 | \$ 412,225 | \$ 405,744 | \$ 372,964 |
| Contributions in relation to the statutorily or contractually required contributions | (406,800) | (434,106) | (416,156) | (412,225) | (405,744) | (372,964) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered employer payroll | \$8,203,436 | \$8,557,206 | \$8,519,240 | \$8,526,028 | \$9,384,967 | \$9,268,074 |
| Contributions as a percentage of covered employee payroll | 4.96% | 5.07% | 4.88% | 4.83% | 4.32% | 4.02% |

| PERS 2/3 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Statutorily or contractually required contributions | \$ 631,957 | \$ 643,488 | \$ 579,483 | \$ 538,399 | \$ 520,400 | \$ 461,531 |
| Contributions in relation to the statutorily or contractually required contributions | (631,957) | (643,488) | (579,483) | (538,399) | (520,400) | (461,531) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered employer payroll | \$8,203,436 | \$8,557,206 | \$8,519,240 | \$8,526,028 | \$9,384,967 | \$9,268,074 |
| Contributions as a percentage of covered employee payroll | 7.70% | 7.52% | 6.80% | 6.31% | 5.54% | 4.98% |

*As this is a newly adopted standard, information is only available for the last six years.

Supplemental Information (Unaudited)

Public Utility District No. 1 of Pend Oreille County

Electric System - Revenue, customer and energy statistics for the years ended December 31

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Average number of customers | | | | | |
| Residential | 8,435 | 8,307 | 8,205 | 8,126 | 8,042 |
| Commercial | 849 | 842 | 842 | 843 | 842 |
| Industrial | 12 | 9 | 8 | 8 | 8 |
| Other | 81 | 80 | 80 | 79 | 77 |
| Total | 9,377 | 9,238 | 9,135 | 9,056 | 8,969 |
| Revenues from sale of energy (000s) | | | | | |
| Residential | \$ 10,821 | \$ 10,283 | \$ 10,577 | \$ 9,372 | \$ 8,899 |
| Commercial | 3,057 | 2,935 | 2,836 | 2,508 | 2,401 |
| Industrial | 34,670 | 33,767 | 32,081 | 32,165 | 26,500 |
| Other | 30 | 30 | 34 | 40 | 40 |
| Total District customers | 48,578 | 47,015 | 45,528 | 44,085 | 37,840 |
| Intersystem sales | 141 | 198 | 185 | 164 | 132 |
| Sales for resale | 4,604 | 4,574 | 1,937 | 1,492 | 5,790 |
| Total energy sales | 53,323 | 51,787 | 47,650 | 45,741 | 43,762 |
| Other operating revenues | 1,559 | 1,099 | 1,181 | 1,317 | 739 |
| Total | \$ 54,882 | \$ 52,886 | \$ 48,831 | \$ 47,058 | \$ 44,501 |
| Energy (MWh) | | | | | |
| Residential | 153,095 | 145,100 | 153,606 | 132,802 | 133,059 |
| Commercial | 51,529 | 49,370 | 51,337 | 45,462 | 44,696 |
| Industrial | 751,930 | 802,274 | 795,231 | 762,914 | 643,009 |
| Other | 145 | 145 | 267 | 302 | 291 |
| Total District customers | 956,699 | 996,889 | 1,000,441 | 941,480 | 821,055 |
| Intersystem sales | 1,710 | 3,062 | 3,319 | 2,805 | 2,867 |
| Sales for resale | 138,456 | 160,056 | 85,580 | 84,592 | 282,410 |
| Total sales | 1,096,865 | 1,160,007 | 1,089,340 | 1,028,877 | 1,106,332 |
| Peak demand (MW) | 160 | 162 | 166 | 161 | 145 |
| Energy requirements (MWh) | | | | | |
| Ponderay Newsprint Company | 674,396 | 723,227 | 724,990 | 699,447 | 580,993 |
| All other retail customers | 284,013 | 276,724 | 278,771 | 244,838 | 242,929 |
| Total retail sales | 958,409 | 999,951 | 1,003,761 | 944,285 | 823,922 |
| Sales for resale | 138,456 | 160,056 | 85,580 | 84,592 | 282,410 |
| Total sales | 1,096,865 | 1,160,007 | 1,089,341 | 1,028,877 | 1,106,332 |
| Electric System losses | 26,583 | 23,710 | 16,707 | 30,545 | 19,760 |
| Total energy requirements | 1,123,448 | 1,183,717 | 1,106,048 | 1,059,422 | 1,126,092 |
| Energy resources (MWh) | | | | | |
| Box Canyon Project | 460,575 | 451,656 | 359,364 | 490,907 | 505,850 |
| Boundary Project | 369,066 | 368,974 | 366,350 | 368,828 | 366,005 |
| Bonneville and other sources | 293,807 | 363,087 | 380,334 | 199,687 | 254,237 |
| Total energy resources | 1,123,448 | 1,183,717 | 1,106,048 | 1,059,422 | 1,126,092 |

Electric System - Senior lien parity debt service coverage for the years ended December 31,

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Operating revenues (000s) | | | | | |
| Energy sales | \$ 53,323 | \$ 51,786 | \$ 47,648 | \$ 45,742 | \$ 43,762 |
| Other | 1,559 | 1,100 | 1,181 | 1,317 | 739 |
| Total operating revenues | 54,882 | 52,886 | 48,829 | 47,059 | 44,501 |
| Operating expenses (1) | | | | | |
| Power costs | 34,410 | 33,313 | 29,704 | 25,916 | 28,121 |
| Operations and maintenance | 6,231 | 6,511 | 6,701 | 5,782 | 6,191 |
| Administrative and general | 3,825 | 4,558 | 5,981 | 4,433 | 3,586 |
| Taxes | 2,785 | 2,721 | 2,482 | 2,525 | 2,157 |
| Pension Expense | (727) | (975) | (603) | (691) | 477 |
| Total operating expenses | 46,524 | 46,128 | 44,265 | 37,965 | 40,532 |
| Investment income (2) | 266 | 229 | 79 | 56 | - |
| Net revenue available for debt service | 8,624 | 6,987 | 4,643 | 9,150 | 3,969 |
| Funds transferred to rate stabilization fund | (3,200) | (2,200) | (300) | (4,300) | - |
| Net revenue for debt service coverage | 5,424 | 4,787 | 4,343 | 4,850 | 3,969 |
| Senior lien debt service | 1,178 | 2,053 | 2,062 | 2,057 | 3,005 |
| Net revenue available for capital | \$ 4,246 | \$ 2,734 | \$ 2,281 | \$ 2,793 | \$ 964 |
| Debt service coverage ratio (3) | 4.60x | 2.33x | 2.11x | 2.36x | 1.32x |

- (1) Total operating expenses exclude depreciation for purposes of determining parity debt service coverage ratios.
- (2) Investment income varies depending on many factors, including unrealized gains and losses on long-term investments.
- (3) Debt service coverage ratio on senior lien debt service.

Box Canyon Production System - Senior lien parity debt service coverage for the years ended December 31,

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Operating revenues (000s) | | | | | |
| Energy sales | | | | | |
| Electric System | \$ 19,191 | \$ 18,304 | \$ 18,414 | \$ 17,603 | \$ 16,669 |
| Tribal use of lands | 230 | 230 | 230 | 232 | 219 |
| All other (1) | 7 | 6 | 5 | 36 | 15 |
| Total operating revenues | 19,428 | 18,540 | 18,649 | 17,871 | 16,903 |
| Operating expenses (2) | | | | | |
| Power costs | 176 | 114 | 231 | 126 | 114 |
| Operations and maintenance | 6,683 | 5,105 | 5,099 | 4,904 | 4,643 |
| Administrative and general | 2,458 | 2,937 | 2,364 | 2,190 | 2,454 |
| Taxes | 103 | 103 | 83 | 111 | 114 |
| Pension Expense | (317) | (318) | (294) | (280) | 200 |
| Total operating expenses | 9,103 | 7,941 | 7,483 | 7,051 | 7,525 |
| Investment income | 570 | 552 | 258 | 229 | 10 |
| Other nonoperating (3) | 687 | 1,610 | 1,939 | 1,986 | 2,021 |
| Net revenue available for debt service (4) | 11,582 | 12,761 | 13,363 | 13,035 | 11,409 |
| Senior lien debt service (5) | 9,398 | 9,916 | 10,942 | 10,993 | 11,037 |
| Net revenue available for capital | \$ 2,184 | \$ 2,845 | \$ 2,421 | \$ 2,042 | \$ 372 |
| Debt service coverage ratio (6) | 1.23x | 1.29x | 1.22x | 1.19x | 1.03x |

(1) "All other" includes miscellaneous revenue such as logging activities on project properties.

(2) Excludes depreciation for purposes of determining senior lien debt service coverage.

(3) Internal Revenue Service interest reimbursement for 2009 Series B, Taxable Build America Bonds, and 2012 Taxable Clean Renewable Energy Bonds, Direct Payment.

(4) The District controls net revenue available by adjusting the power sales transfer price to the Electric System based on Box Canyon Production System cash flow requirements for debt service and capital investment.

(5) Senior lien debt service includes the 2008 CREB bonds, the 2009 bonds, the 2010 bonds, the 2012 CREB bonds, and the 2018 bonds.

(6) Debt service coverage ratio on senior lien debt service.

Community Network System - Senior lien parity debt service coverage
for the years ended December 31,

| | 2019 | 2018 | 2017 |
|--|----------|-------|----------|
| Operating revenues (000s) | | | |
| Broadband Sales | \$ 2,194 | 2,059 | \$ 1,957 |
| Other | 278 | 755 | 492 |
| Total operating revenues | 2,472 | 2,814 | 2,449 |
| Operating expenses (1) | | | |
| Operations and maintenance | 921 | 877 | 847 |
| Administrative and general | 243 | 186 | 189 |
| Taxes | 15 | 18 | 32 |
| Pension Expense | (82) | 11 | (53) |
| Total operating expenses | 1,097 | 1,092 | 1,015 |
| Investment income (2) | (36) | 5 | - |
| Net revenue available for debt service | 1,339 | 1,727 | 1,434 |
| Senior lien debt service | 420 | 420 | 419 |
| Net revenue available for capital | \$ 919 | 1,307 | \$ 1,015 |
| Debt service coverage ratio | 3.19x | 4.11x | 3.42x |

2017 was the first year of senior lien parity debt service coverage requirements.

- (1) Total operating expenses exclude depreciation for purposes of determining parity debt service coverage ratios.
- (2) Investment income varies depending on many factors, including unrealized gains and losses on long-term investments.

Organizational Information

Public Utility District No. 1 of Pend Oreille County

| | |
|--|--|
| Date of organization | November 1936 |
| Nature of business | A municipal corporation supplying public utility services in Pend Oreille County, Washington |
| Board of Commissioners | |
| President | Curt J. Knapp |
| Vice President | Richard A. Larson |
| Secretary | Joseph B. Onley |
| Key District Management | |
| General Manager | F. Colin Willenbrock |
| Assistant General Manager, General Counsel | Tyler R. Whitney |
| Director, Compliance, Safety, Engineering & Technology | Kevin J. Conway |
| Director, Audit, Finance & Power Supply/Auditor | April D. Owen |
| Director, Treasury, Broadband & Strategic Planning/Treasurer | Sarah L. Holderman |
| Director, Customer Service & Metering | Elizabeth M. Bartel |
| Director, Operations and Line Superintendent | Christopher W. Jones |
| Systems | |
| Electrical power distribution | Electric System |
| Hydroelectric power generation at Box Canyon Project | Box Canyon Production System |
| Water distribution in residential subdivisions and the town and vicinity of Metaline Falls | Water System |
| Wholesale broadband communications services | Community Network System |
| Corporate Office | P.O. Box 190 130 N. Washington Newport, Washington 99156 (509) 447-3137 Telephone (509) 447-5824 Facsimile www.popud.org |
| Paying Agent and Registrar Information | U.S. Bank National Association 111 Fillmore Avenue East St. Paul, Minnesota 55107-1402 |