



# 2020

Annual Report

**PUBLIC UTILITY  
DISTRICT NO.1 OF  
PEND OREILLE  
COUNTY**



# OUR STRATEGIC PLAN GUIDES EVERYTHING WE DO

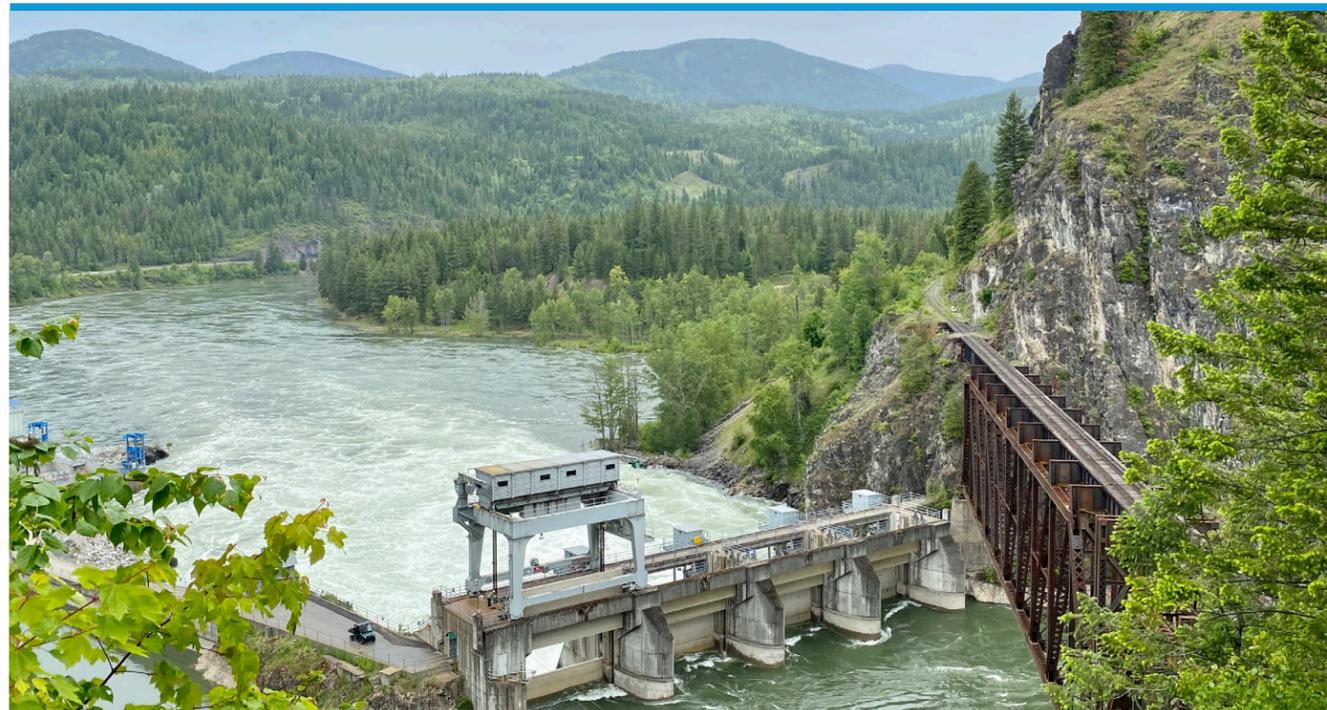


## *Our Mission*

Quality service at low cost.

## *Vision*

“To be valued as a trusted and respected public utility district providing the services our rural communities need at a competitive value in order to improve the quality of life for generations to come.”



## *Core Values*

### **Safety and Health**

Must share a personal and professional commitment to protecting the safety and health of our customers, our employees, and our contractors in order to ensure a reliable workforce and an educated community.

### **Customer Focus**

Must believe in respecting our employees and customers, listening to their requests and understanding their needs. Strive to exceed their expectations with regard to reliable service and affordable cost.

### **Community**

Must help and improve the communities where we live and work. Promote the development of sustainable structures through collaborative working and volunteering.

### **Teamwork**

Must value diversity and draw strength from the wealth of viewpoints that reside within the District. Must work together; demonstrate collaboration through mutual reliability, openness, empowerment, growth and flexibility. Unite the District and its departments.

### **Integrity**

Must be guided by what is ethical and right and fulfill all commitments as a responsible steward of public assets and trust. Must foster open and honest communications, listen, and understand other perspectives.

### **Decisiveness**

Must timely make hard choices and necessary changes based on the best interests of the District without partiality.



## *What's Inside*

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# A YEAR OF INCREDIBLE RESILIENCE IN THE FACE OF THE GLOBAL PANDEMIC

## A Message to our Stakeholders

Pend Oreille Public Utility District has never experienced a year quite like 2020: a global pandemic, the closure of our largest industrial customer, mass unemployment, wildfires, capital project delays and waves of social and political unrest. And yet 2020 has not defeated us. Our great team of resilient employees have stood on the frontlines of this economic crisis, demonstrating to our customers the unwavering strength and commitment of the utility as the District managed increased demand for broadband access and developed assistance programs to help pay for the basic costs of energy and water. The team's unprecedented acts of compassion, cooperation and grace have allowed us to solve some of the greatest challenges in our history and set us on the path of recovery and continued success.

### Coronavirus (COVID-19)

The novel coronavirus required the District to operate with a significantly smaller workforce, a restricted supply chain, and limited customer support services beginning March 18, 2020. The District responded by immediately standing up a robust remote-work platform for eligible employees and implementing a series of health and safety protocols for those critical employees who are directly responsible for maintaining utility services during the health emergency. To date, our efforts have helped to control the spread of the deadly virus according to state and local health professionals. The impact on our customers has been profound, with

**“The District funded additional COVID-specific assistance programs to complement our long-standing Neighbors-in-Need program and partnered with Pend Oreille County to apply federal CARES Act funds to eligible customer utility accounts.”**

many struggling to pay their utility bills. The District funded additional COVID-specific assistance programs to complement our long-standing

Neighbors-in-Need program and partnered with Pend Oreille County to apply federal CARES Act funds to eligible customer utility accounts. These efforts resulted in past-due accounts totaling less than one-half of one percent of electric system revenues at year-end. The District also experienced over two percent in electric residential customer growth and over ten percent in broadband customer growth.

### Ponderay Newsprint Company

Unfortunately, the global pandemic also took its toll on Ponderay Newsprint Company (PNC). After over thirty years of continuous operations, PNC announced the closure of its mill in Usk, Washington and filed for Chapter 7 bankruptcy in June 2020. PNC was the District's largest customer representing nearly 70% of electric system load and \$30 million in annual revenues. Under the terms of the 2018 settlement agreement, the District is owed roughly \$32 million in damages. The District received \$10 million in escrowed collateral from the mill, which was deposited into an unrestricted cash account. The District intends to use the collateral to offset Box Canyon costs starting in 2021 for a period of five years to coincide with the term of the Shell Energy North America contract discussed below. The remaining \$22 million is an unsecured claim to be administered through the bankruptcy proceedings.

The District continues to supply a limited amount of power to the mill under a separately negotiated contract with the bankruptcy estate and has received several inquiries from potential counterparties regarding future power supply at the site.

### Shell Energy Contract

Following the closure of PNC, the District immediately notified Portland General Electric (PGE) (pursuant to the terms of our existing contract) of our intent to liquidate all surplus Box Canyon power at market rates and discontinue deliveries of system power that was being used to serve PNC's load. That contract with PGE expired at the end of 2020. The District replaced the PGE contract with a five-year agreement with Shell Energy North America that went into effect January 1, 2021. The agreement involves the sale of 100% of Box Canyon Dam output and contractual assignment energy that is received from Seattle City Light's Boundary Dam. Shell then supplies the power necessary to meet the District's forecasted loads and makes fixed net payments to the District over the term of the agreement. This medium-term agreement provides certainty, risk mitigation, and rate stability for the utility as it transitions away from its historical cost-based relationship with PNC.

**“This medium-term agreement provides certainty, risk mitigation, and rate stability for the utility as it transitions away from its historical cost-based relationship with PNC.”**

### Box Canyon License Amendment

The District and associated stakeholders submitted a Box Canyon license amendment and off-license settlement agreement for FERC approval in 2019 that, if approved, would eliminate both current requirements for constructing a downstream fish passage at Box Canyon as well as an up-and-downstream fish passage at Calispell Creek. In return, the District would be responsible for particular annual watershed mitigation payments. In anticipation of FERC approval, the District accrued \$2 million in 2019 for the first payment and accrued an additional \$600,000 in 2020. FERC approval is now expected by mid-2021 with the first payment due within 60 days thereafter. The expense for the excess accrued funds has been reversed back to the electric system for the year.

### Upstream Fish Passage Project

The District completed the principal scope of the upstream fish passage facility and reached a final settlement with the contractor for delays and defective work. The agreement requires the District to pay the contractor the remaining \$418,591 left on the contract, as well as monies that were withheld from invoices as liquidated damages, less a deductive change order of \$672,135. The resulting \$1,443,246 will be paid once the contractor completes all contract processes through the State of Washington. The facility is expected to be operational in late-2021 following the completion of safety upgrades and minor remediation work.

As you can see, this was another incredibly successful year despite all of the challenges. Our resilient team of employees remain focused on, and committed to, preserving and enhancing this utility for generations to come. Thank you for your continued support.

Respectfully,



**Curt Knapp**

*Board of Commissioners,*



**F. Colin Willenbrock**

*General Manager  
President*



# HIGHLIGHTS OF 2020

## Electric System

Electric Customers **9,530**    Electric Sales MWh **511,997**    New Service Requests **149**

Average Residential Rate Comparison in Cents per kWh



## CN System

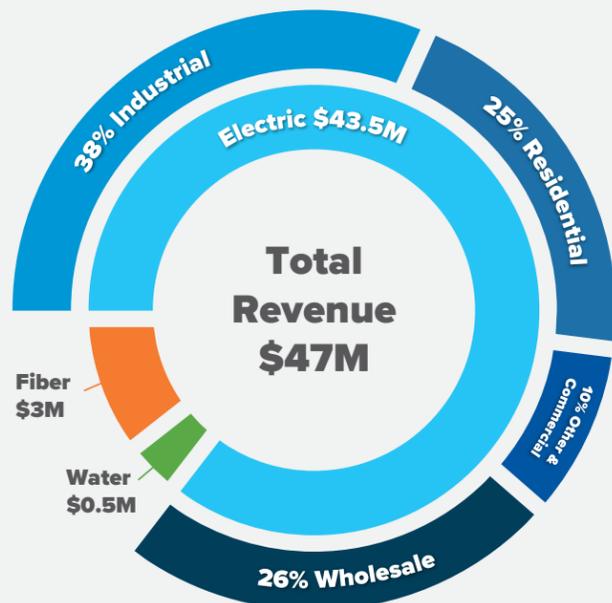
Fiber End-Users **2,354**

Wireless End-Users **134**

New Service Requests **234**

## Pend Oreille PUD by the Numbers

**77** employees operate the utility under the direction of **3** commissioners. With **1,425** square miles of service territory, it is a lot to cover. The utility maintains **16,214** power poles, **7,116** transformers, **1,150** miles of power line, **6** substations, **6** hydropower generators, **2** hydropower facilities, **25** miles of water pipe, and **596** miles of fiber optic cable. To support our customers & community in 2020, **10** free WiFi hotspots were activated and **2** electric vehicle charging stations were installed. **21,745** customer calls were answered, and **0** lost-time accidents were reported.



## Water System

Water Customers **600**    Water Divisions **9**    Water Usage in Gallons **27,156,876**

## Box Canyon Hydroelectric Project

MWh Generated **444,275**    Mill Rate **\$40.73**

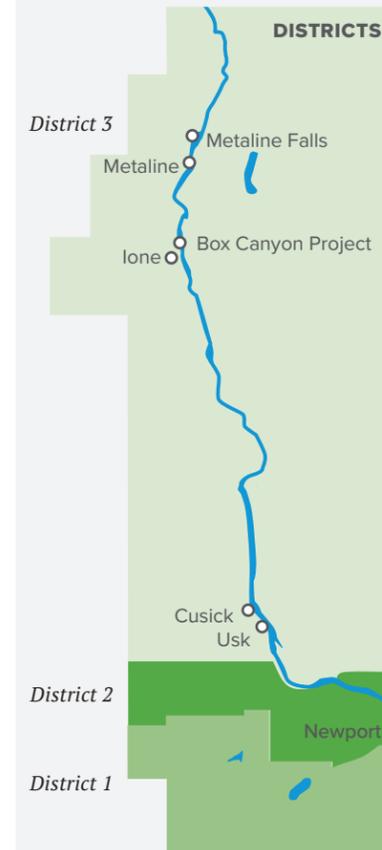


## About Us

Pend Oreille Public Utility District was established in 1936 and began operations in 1948. The PUD is governed by three locally elected Commissioners each serving six-year terms. Commissioners represent their respective districts and are responsible for making policy decisions for the utility. A General Manager and staff operate the utility within policies set by the Board.

The PUD has four operating systems: The electric system distributes electricity to the county, the production system produces power from the Box Canyon Hydroelectric Project, the water system consists of nine individual water distribution subdivisions, and the community network system provides wholesale broadband communication services.

## Board of Commissioners



**Richard A. Larson**  
Vice President  
Represents District No. 3  
Served Since 2011



**Curtis J. Knapp**  
President  
Represents District No. 2  
Served Since 2002



**Joseph B. Onley**  
Secretary  
Represents District No. 1  
Served Since 2019

## Customers Enrolled in Programs

SmartHub Accounts **4,882**    Budget Billing **1,338**

Paperless Billing **1,986**    AutoPay **1,826**

Operation Round Up **355**

## Assistance Funds Awarded

Neighbors in Need **\$5,867**

CARES Act **\$38,419**

COVID Emergency Assistance **\$14,250**

These assistance programs help families experiencing financial hardship with their utility bills. The Neighbors in Need campaign funds are raised through donation, while the COVID-19 Emergency Assistance Fund was established by the District. The CARES Act Funds were received from Pend Oreille County and helped customers financially impacted by the pandemic. In total, 170 customers were helped by this funding.

## 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, 2020 and 2019, the individual statements of net position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2020, the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years ended December 31, 2020 and 2019, 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, 2020, 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, 2020, 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, 2020, and the related combined statements of revenues, expenses and changes in net position, and cash flows for the years ended December 31, 2020 and 2019, 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 opinions 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 March 22, 2021, 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  
March 22, 2021

## 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, 2020, 2019 and 2018. 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. 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 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 2020, the District's overall financial position improved. Total net position for the District increased \$702,207 from \$149,617,891 in 2019 to \$150,320,098 in 2020.

## Financial Analysis

### Combined Statements of Net Position

as of December 31	2020	2019	2018
<b>Assets and Deferred Outflows of Resources</b>			
Current assets	\$ 84,371,624	\$ 85,325,606	\$ 82,212,198
Other assets	8,865,688	9,454,799	10,071,334
Net utility plant	254,179,828	260,435,099	265,505,570
Total assets	347,417,140	355,215,504	357,789,102
Deferred outflows of resources	1,546,467	1,546,124	925,878
Total assets and deferred outflows of resources	\$ 348,963,607	\$ 356,761,628	\$ 358,714,980
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities	\$ 20,382,311	\$ 18,208,027	\$ 17,988,892
Other liabilities	26,392,026	30,504,527	31,718,123
Long-term debt	151,075,847	156,716,168	162,509,484
Total liabilities	197,850,184	205,428,722	212,216,499
Deferred inflows of resources	793,325	1,715,015	1,628,451
Total liabilities and deferred inflows of resources	\$ 198,643,509	\$ 207,143,737	\$ 213,844,950
<b>Net position</b>			
Net investment in capital assets	104,118,796	104,788,034	101,293,412
Restricted	26,224,501	25,842,497	25,064,143
Unrestricted	19,976,801	18,987,360	18,512,475
Total net position	\$ 150,320,098	\$ 149,617,891	\$ 144,870,030

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

for the Year Ended December 31	2020	2019	2018
<b>Operating Revenues</b>			
Sales to retail customers	\$ 33,618,010	\$ 51,236,951	\$ 49,533,086
Sales to other utilities	11,645,161	4,603,563	4,573,930
Other	1,607,248	1,692,926	1,446,271
Total operating revenues	\$ 46,870,419	\$ 57,533,440	\$ 55,553,287
<b>Operating Expenses</b>			
Power costs	\$ 10,992,112	\$ 15,164,787	\$ 14,892,569
Operations, maintenance, and administrative	17,954,465	19,035,949	18,806,516
Taxes and depreciation	11,906,491	13,312,534	13,142,372
Total operating expenses	\$ 40,853,068	\$ 47,513,270	\$ 46,841,457
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	244,176	771,669	702,063
Interest expense	(5,580,740)	(6,249,829)	(4,382,065)
Other	21,420	205,851	(290,204)
Total nonoperating revenues (expenses)	\$ (5,315,144)	\$ (5,272,309)	\$ (3,970,206)
<b>Change in Net Position</b>	\$ 702,207	\$ 4,747,861	\$ 4,741,624

Pend Oreille County (the 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.

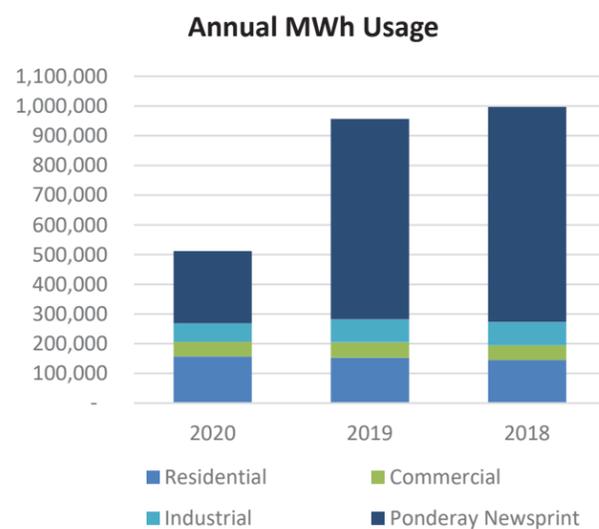
### Electric System

The District’s electric system distributes electricity to approximately 9,500 meters, including 849 commercial customers and 14 industrial customers. The District generates power from District-owned Box Canyon Dam and Calispel Powerhouse, and during 2020 purchased power from Bonneville Power Administration, Seattle City Light’s Boundary Project, Portland General Electric and Avista Corporation. Avista Corporation serves as the District’s balancing authority.

Electric System Selected Data	2020	2019	2018
Residential revenues	\$ 11,118,942	\$ 10,820,873	\$ 10,282,551
Commercial revenues	2,897,757	3,087,375	2,964,548
Industrial revenues	3,078,749	3,527,411	3,654,051
Ponderay Newsprint revenues	13,606,670	31,142,954	30,112,591
Residential customer growth	1.95%	1.55%	1.24%
Residential energy rate (cents per kWh)	5.42¢	5.13¢	5.11¢
Residential monthly system access charge	\$35.50	\$30.50	\$30.50
<i>Average Power Cost per Megawatt Hour:</i>			
Box Canyon	\$41	\$42	\$41
Boundary	\$9	\$8	\$6
Bonneville Power Administration	\$41	\$38	\$38
Avista and other market purchases	\$20	\$40	\$29

#### Factors influencing 2020 economic results:

- The District’s largest customer, Ponderay Newsprint Company (PNC), ceased operations in June 2020, declaring Chapter 7 bankruptcy. Historically, PNC had accounted for approximately 70% of the District’s retail energy deliveries and 58% of the District’s retail energy sales revenues. PNC had operated under substantially the same cost-based contracts since 1986. Upon PNC’s closure, the District was in a long position, meaning the District had more energy resources than energy load. In July 2020, the District



amended its power contract with Portland General Electric (PGE), which at the time was purchasing Box Canyon generation as a carbon free resource and selling back non-specified power to the District. The amendment eliminated the exchange component of the contract with PGE and sold all generated Box Canyon power to PGE at day-ahead market price plus a zero-carbon adder. Also due to the loss of load, as of the end of Bonneville Power Administration’s fiscal year in September, the District reduced its allocation of Block Power purchases from Bonneville from an annual average of 21 MW per hour to zero. The contract still remains in effect.

- Shortly after PNC declared bankruptcy, the District requested and received PNC’s \$10 million cash collateral in satisfaction of the secured portion of the District’s claim in the bankruptcy proceedings. The District also

filed a claim for \$22 million, representing the District’s unsecured portion. The bankruptcy estate has not yet been closed for the PNC site, and the District currently has no further information as to future use of the facility and associated energy requirements.

- Although the District experienced the loss of a major industrial customer with PNC’s closure, the District’s residential customer count has increased; the District experienced almost 2% customer growth during 2020, slightly higher than 2019 and 2018 growth rates.
- In response to PNC’s closure, the District enacted both cost cuts and electric rate increases. In August 2020, the District laid off over 8% of its employees and delayed capital and other expenditures where possible. The District also increased rates for all rate classes approximately 6.5% effective August 1, 2020, and subsequently imposed another rate increase in December 2020 of approximately 10%, effective January 1, 2021.
- The COVID-19 pandemic had effects on the District beyond the closure of PNC. In March 2020, the Washington State Governor issued a Stay-At-Home order, restricting public interaction. District office staff were moved to a remote-work environment and essential personnel were put on rotating shifts through May. Staff returned to onsite work under safety guidelines and continued to adjust work schedules and locations based on state and local health guidance. Local schools and businesses were subject to the Stay-At-Home Order, reducing commercial electric usage, but increasing overall residential usage. The District had not seen a material increase in delinquent customer accounts as of December 31.
- Even before PNC’s closure, the District was actively pursuing a counterparty to secure the offtake of Box Canyon power over a mid-term agreement. The District selected Shell Energy North America (US), L.P. (“Shell”) during 2020, and signed a five-year contract to sell Box Canyon power and power assigned to the District from Seattle City Light’s Boundary project. The District will purchase power from Shell to meet its average monthly energy requirements. The net of the transactions results in fixed monthly payments from Shell to the District over the five-year contract period. The contract became effective January 1, 2021, corresponding to the end of PGE’s contract term of December 31, 2020.

#### Annual Resource Megawatts and Cost



**Electric System Financial Data**

as of December 31	2020	2019	2018
Total assets and deferred outflows of resources	\$ 105,933,024	\$ 110,087,830	\$ 110,382,740
Total liabilities and deferred inflows of resources	\$ 38,193,137	\$ 41,706,934	\$ 46,228,207
Net investment in capital assets	51,289,578	52,360,205	49,429,472
Restricted	12,294,409	11,897,226	10,872,942
Unrestricted	4,155,900	4,123,465	3,852,119
Total net position	\$ 67,739,887	\$ 68,380,896	\$ 64,154,533

**Capital Assets**

	2020	2019	2018
Transmission and distribution	\$ 122,298,657	\$ 120,032,210	\$ 116,506,829
Hydroelectric plant and equipment	1,525,945	1,525,945	1,525,945
General plant	4,420,834	4,357,051	4,299,132
Total utility plant in service	128,245,436	125,915,206	122,331,906
Construction work in progress	1,191,445	2,059,490	2,280,046
Total gross utility plant	\$ 129,436,881	\$ 127,974,696	\$ 124,611,952

**Long Term Debt**

	2020	2019	2018
Total debt outstanding	\$ 9,333,030	\$ 9,673,632	\$ 12,555,512

The Electric System currently has one revenue bond outstanding, with approximately 10 years remaining on the term. 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 3.41, 4.60 and 2.33 for 2020, 2019, and 2018, 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. No transfers of cash were made in 2020. The balance in this account was \$10 million as of December 31, 2020 and 2019 and was \$6.8 million as of December 31, 2018.

**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.

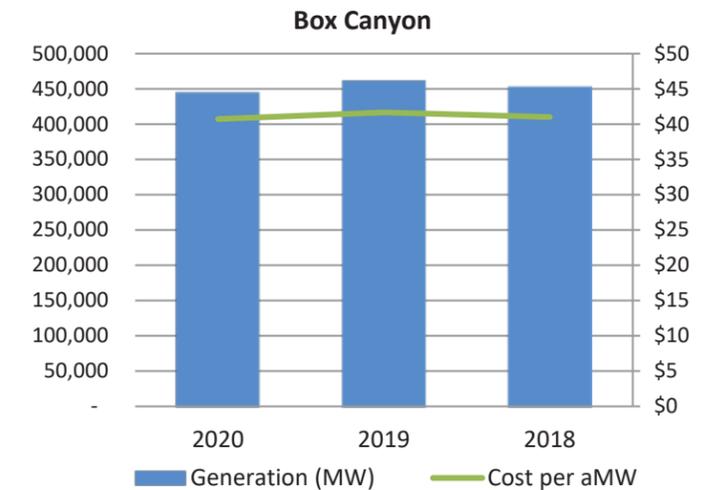
Revenues for the Box Canyon Production System are calculated based on the cash expenditures to operate the Project. This includes labor and materials required to run the facility, expenditures for environmental work related to the reservoir behind the Project, principal and interest on Box Canyon's debt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

**Box Canyon Production System Selected Data**

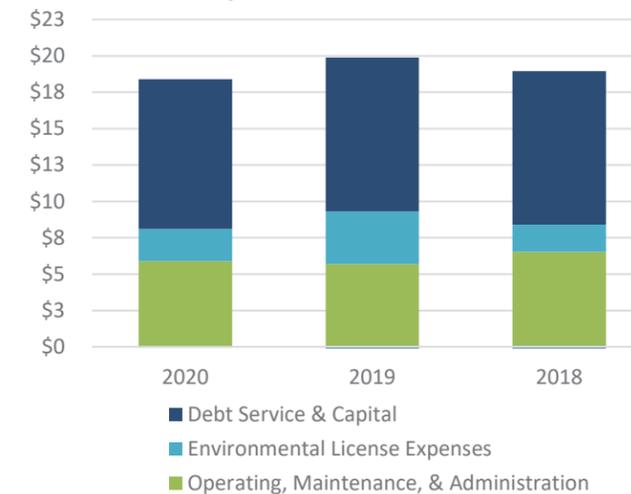
	2020	2019	2018
Total cost of production	\$ 18,326,191	\$ 19,421,174	\$ 18,533,686
Operating expenses	11,455,539	12,691,477	11,543,301
Annual generation in megawatt hours	444,275	460,575	451,656

**Factors influencing 2020 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 2020 and 2018. Average hourly generation for the dam in 2020 was just under 51 megawatts, with a peak generation of 86 megawatts in July.
- Operating expenses for the Box Canyon Production System include environmental work being performed as required by FERC licensing conditions. The type and expense of environmental work will vary from year to year and consists of cultural studies, historical education, fisheries and stream-rehabilitation projects, recreation and wildlife projects, and water quality programs on the Pend Oreille River. During 2019, the District accrued \$2 million in anticipation of an environmental payment that was due upon FERC approval of a license amendment, and accrued an additional \$600,000 in 2020. Payment was not made in 2019 or in 2020 due to delays in the FERC approval process.
- The District has been constructing an upstream fish passage facility at Box Canyon, fulfilling a FERC license requirement. The project has not yet met final completion after being delayed several times from the original completion date of November 1, 2018. The District settled with the project contractor during 2020, facilitating the contractor's completion of on-site work, reducing the contract value from \$36.2 million to \$35.5 million, and establishing the final milestones to complete the contract. The District has accrued a final \$1.4 million payment to the contractor that will be paid after those final contract milestones are met and state contracting requirements are fulfilled. After completion of the fish passage facility, which is now expected in mid- to late-2021, and assuming FERC approval of the pending license amendment application, the District does not have plans for any major construction projects in the near future.



**Box Canyon Production Costs, in Millions**



**Box Canyon Production System Financial Data**

as of December 31	2020	2019	2018
Total assets and deferred outflows of resources	\$ 214,827,519	\$ 217,376,644	\$ 217,543,406
Total liabilities and deferred inflows of resources	\$ 157,152,481	\$ 161,469,123	\$ 163,118,099
Net investment in capital assets	25,989,434	24,685,520	22,614,231
Restricted	13,930,092	13,789,271	14,041,201
Unrestricted	17,755,512	17,432,730	17,769,875
Total net position	\$ 57,675,038	\$ 55,907,521	\$ 54,425,307

**Capital Assets**

	2020	2019	2018
Hydroelectric plant and equipment	\$ 149,793,867	\$ 149,833,230	\$ 149,852,111
General plant	14,040,497	14,040,497	14,040,497
Total utility plant in service	\$ 163,834,364	\$ 163,873,727	\$ 163,892,608
Construction work in progress	46,515,619	45,953,474	44,674,005
Total gross utility plant	\$ 210,349,983	\$ 209,827,201	\$ 208,566,613

**Long Term Debt**

	2020	2019	2018
Total debt outstanding	\$ 144,146,646	\$ 148,592,147	\$ 152,483,990

The District was re-evaluated by Moody's Investor Services and Fitch Ratings in the summer of 2020. Moody's moved the District from a positive to a stable outlook on their Baa2 rating, noting successful execution of risk mitigation strategy in light of PNC's closure. Fitch Ratings also revised the District's outlook from stable to negative as a result of the PNC closure, but reaffirmed the District's rating of A-, citing the District's willingness to raise rates and strong leverage profile as offsets to the District's loss of revenue.

**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.

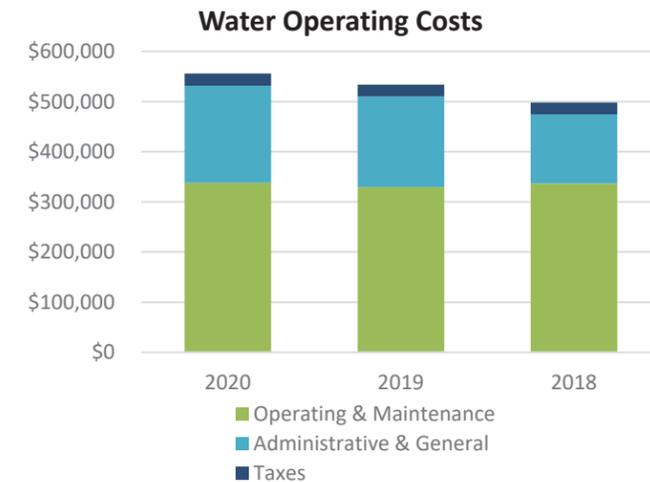
Water System Selected Data	2020	2019	2018
Operating revenues	\$ 568,300	\$ 550,409	\$ 564,791
Operating expenses	711,008	691,072	859,771

Annual Water Usage by System, in gallons:

Metaline Falls	12,580,150	11,479,472	14,405,900
Sandy Shores	3,981,776	3,674,280	4,452,499
Riverbend	2,437,872	2,025,666	2,943,757
Greenridge	834,050	369,960	1,231,560
Riverview	1,638,620	1,175,882	2,673,043
Sunvale	2,785,403	2,619,770	2,814,910
Lazy Acres	1,231,940	1,188,080	1,236,880
Holiday Shores	788,693	639,890	817,477
Granite/Sacheen	878,372	706,510	763,810

**Factors influencing 2020 economic results:**

- Metaline Falls is the only District-owned system that serves an incorporated town. At 192 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.



- The District began performing contracted Water Operator services to a water system owned by the town of Cusick in 2018. Cusick reimburses the District for operations and administrative work performed, as well as additional expenses incurred by the District on the Cusick's behalf. \$71,762, \$69,411 and \$85,251 is included as other revenue for the consolidated water systems for 2020, 2019, and 2018 respectively, which offsets approximately the same amount of expenses for each year.

**Water System Financial Data**

as of December 31	2020	2019	2018
Total assets and deferred outflows of resources	\$ 5,104,304	\$ 4,804,328	\$ 5,002,481
Total liabilities and deferred inflows of resources	\$ 751,068	\$ 347,864	\$ 403,007
Net investment in capital assets	4,901,130	4,659,050	4,807,232
Restricted	-	-	-
Unrestricted	(547,894)	(202,586)	(207,758)
Total net position	\$ 4,353,236	\$ 4,456,464	\$ 4,599,474

**Capital Assets**

	2020	2019	2018
Transmission and distribution	\$ 8,668,704	\$ 8,668,098	\$ 8,667,386
General plant	78,047	78,047	78,047
Total utility plant in service	8,746,751	8,746,145	8,745,433
Construction work in progress	457,215	18,794	962
Total gross utility plant	\$ 9,203,966	\$ 8,764,939	\$ 8,746,395

**Long Term Debt**

	2020	2019	2018
Total debt outstanding	\$ 52,390	\$ 60,027	\$ 97,620

The Metaline Falls, Riverview, and Sunvale systems are all currently engaged in construction projects. The Metaline Falls and Sunvale systems are upgrading their distribution infrastructure, while Riverview is installing a water filtration system.

The Riverbend and Sunvale systems made final payment in 2020 on loans they had with Washington State agencies. The Sunvale system has entered into a new Washington State Public Works Board loan to fund infrastructure upgrades, and the Granite/Sacheen system continues to make payments on its Public Works Board loan. 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	2020	2019	2018
Operating revenues	\$ 3,493,936	\$ 2,756,250	\$ 2,813,847
Operating expenses	3,772,341	3,546,889	3,738,908
Average fiber standard class end users	2,220	2,002	1,856
Average wireless class end users	134	112	75

### Factors influencing 2020 economic results:

- The Community Network System continued to see substantial growth during 2020. Customers requesting service after grant funds were exhausted in 2013 pay the full cost of extending service. Contributions in aid of construction of \$319,421, \$239,153, and \$431,731 in 2020, 2019, and 2018, respectively, have offset costs of expanding the System.
- The COVID-19 pandemic created increased demand for high-speed internet access and bandwidth capacity. Several of the District's premium class customers increased their wholesale products while standard class customer growth was over 10% during 2020.

### Community Network System Revenues



### Community Network Operating Costs



- Expenses for the Community Network System have remained fairly constant over the past 3 years. At \$2.51 million in 2020, \$2.45 million in 2019, and \$2.65 million in 2018, depreciation is the largest component of operating expenses.

- The District has been increasing reserves for the system, adding approximately \$540,500, \$285,000, and \$290,000 to cash reserves in 2020, 2019, and 2018, respectively. The District has conducted a study to determine the feasibility of expanding services into the northern part of the County.

### Community Network System Financial Data

as of December 31	2020	2019	2018
Total assets and deferred outflows of resources	\$ 26,556,062	\$ 28,166,386	\$ 29,927,375
Total liabilities and deferred inflows of resources	\$ 6,004,125	\$ 7,293,376	\$ 8,236,659
Net investment in capital assets	21,938,654	23,083,259	24,442,477
Restricted	-	156,000	150,000
Unrestricted	(1,386,717)	(2,366,249)	(2,901,761)
Total net position	\$ 20,551,937	\$ 20,873,010	\$ 21,690,716

### Capital Assets

	2020	2019	2018
Transmission and distribution	\$ 45,251,812	\$ 44,528,896	\$ 44,094,069
General plant	61,721	61,721	61,721
Total utility plant in service	45,313,533	44,590,617	44,155,790
Construction work in progress	18,810	142,442	161,542
Total gross utility plant	\$ 45,332,343	\$ 44,733,059	\$ 44,317,332

### Long Term Debt

	2020	2019	2018
Total debt outstanding	\$ 2,454,056	\$ 3,234,899	\$ 3,891,854

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.

### 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 Production System	Water System	Community Network System	Combined Total as of December 31,	
					2020	2019
<b>Current Assets</b>						
Cash and cash equivalents						
Unrestricted	\$ 12,554,377	\$ 23,135,881	\$ -	\$ 1,251,281	\$ 36,941,539	\$ 29,797,406
Restricted	22,632,356	7,021,570	-	-	29,653,926	28,991,801
Short-term investments						
Unrestricted	59,000	391,000	-	-	450,000	-
Restricted	952,137	9,736,008	-	-	10,688,145	21,397,535
Receivables						
Accounts and contracts, net	2,036,623	-	42,135	202,747	2,281,505	1,106,287
Other	1,351,366	-	55,679	20,143	1,427,188	418,457
Unbilled revenue	238,004	-	-	-	238,004	826,235
Materials and supplies	1,640,219	179	42,016	695,698	2,378,112	2,363,408
Prepaid expenses and other	244,148	69,057	-	-	313,205	424,477
Due from other systems	546,669	158,389	-	-	-	-
<b>Total current assets</b>	<b>42,254,899</b>	<b>40,512,084</b>	<b>139,830</b>	<b>2,169,869</b>	<b>84,371,624</b>	<b>85,325,606</b>
<b>Noncurrent Assets</b>						
Contracts and notes receivable	2,752,244	-	-	-	-	118
Nonutility plant	4,760,273	-	-	-	4,760,273	4,917,744
Licensing costs - regulatory asset	-	4,105,415	-	-	4,105,415	4,536,937
<b>Total noncurrent assets</b>	<b>7,512,517</b>	<b>4,105,415</b>	<b>-</b>	<b>-</b>	<b>8,865,688</b>	<b>9,454,799</b>
<b>Utility Plant</b>						
Land and land rights	3,492,521	789,950	77,305	61,721	4,421,497	4,421,497
Hydroelectric plant and equipment	1,525,945	149,793,867	-	-	151,319,812	151,359,175
Structures, buildings and equipment	122,298,657	-	8,668,704	45,251,812	176,219,173	173,229,204
Intangible assets	928,313	13,250,547	742	-	14,179,602	14,115,819
Construction work in progress	1,191,445	46,515,619	457,215	18,810	48,183,089	48,174,200
	129,436,881	210,349,983	9,203,966	45,332,343	394,323,173	391,299,895
Less accumulated depreciation and amortization	73,508,457	41,419,122	4,250,446	20,965,320	140,143,345	130,864,796
Net utility plant	55,928,424	168,930,861	4,953,520	24,367,023	254,179,828	260,435,099
<b>Total assets</b>	<b>105,695,840</b>	<b>213,548,360</b>	<b>5,093,350</b>	<b>26,536,892</b>	<b>347,417,140</b>	<b>355,215,504</b>
<b>Deferred Outflows of Resources</b>						
Deferred amount on refinancing debt	67,395	1,205,219	-	-	1,272,614	1,396,217
Deferred pension outflows	169,789	73,940	10,954	19,170	273,853	149,907
<b>Total deferred outflows of resources</b>	<b>237,184</b>	<b>1,279,159</b>	<b>10,954</b>	<b>19,170</b>	<b>1,546,467</b>	<b>1,546,124</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 105,933,024</b>	<b>\$ 214,827,519</b>	<b>\$ 5,104,304</b>	<b>\$ 26,556,062</b>	<b>\$ 348,963,607</b>	<b>\$ 356,761,628</b>

## 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,	
					2020	2019
<b>Current Liabilities</b>						
Accounts payable	\$ 1,618,717	\$ 110,424	\$ 14,181	\$ -	\$ 1,743,322	\$ 3,015,328
Accrued compensation and benefits	1,922,962	-	-	-	1,922,962	1,619,490
Accrued taxes	642,171	95,071	1,963	3,224	742,429	1,150,543
Customer prepayments and deposits	1,082,856	-	3,689	110,023	1,196,568	2,428,395
Accrued bond interest	185,650	3,218,486	123	-	3,404,259	3,103,287
Contract security liability	-	1,443,245	-	-	1,443,245	-
Current portion of long-term debt	618,333	3,890,714	7,172	327,389	4,685,219	4,318,638
Current portion of licensing cost liability and unearned revenue	2,000,000	3,194,719	-	49,588	5,244,307	2,572,346
Due to other systems	-	-	533,336	13,333	-	-
<b>Total current liabilities</b>	<b>8,070,689</b>	<b>11,952,659</b>	<b>560,464</b>	<b>503,557</b>	<b>20,382,311</b>	<b>18,208,027</b>
<b>Other Liabilities</b>						
Unearned revenue	19,154,269	-	-	3,132,808	19,588,167	11,616,408
Licensing costs liability	-	3,962,535	-	-	3,962,535	4,536,937
Contract security liability	-	-	-	-	-	11,312,828
Net pension liability	1,761,621	767,157	113,653	198,893	2,841,324	3,038,354
<b>Total other liabilities</b>	<b>20,915,890</b>	<b>4,729,692</b>	<b>113,653</b>	<b>3,331,701</b>	<b>26,392,026</b>	<b>30,504,527</b>
<b>Long-term Debt</b>						
Revenue bonds	8,661,363	140,255,932	-	2,060,000	150,977,295	156,627,065
Other long-term debt	53,334	-	45,218	-	98,552	89,103
Due to other systems	-	-	-	53,334	-	-
<b>Total long-term debt</b>	<b>8,714,697</b>	<b>140,255,932</b>	<b>45,218</b>	<b>2,113,334</b>	<b>151,075,847</b>	<b>156,716,168</b>
<b>Total liabilities</b>	<b>37,701,276</b>	<b>156,938,283</b>	<b>719,335</b>	<b>5,948,592</b>	<b>197,850,184</b>	<b>205,428,722</b>
<b>Deferred Inflows of Resources</b>						
Deferred pension inflows	491,861	214,198	31,733	55,533	793,325	1,715,015
<b>Total deferred inflows of resources</b>	<b>491,861</b>	<b>214,198</b>	<b>31,733</b>	<b>55,533</b>	<b>793,325</b>	<b>1,715,015</b>
<b>Net Position</b>						
Net investment in capital assets	51,289,578	25,989,434	4,901,130	21,938,654	104,118,796	104,788,034
Restricted for						
Sullivan contract obligation	737,272	-	-	-	737,272	740,766
Debt service	1,557,137	13,930,092	-	-	15,487,229	15,101,731
Rate stabilization fund	10,000,000	-	-	-	10,000,000	10,000,000
Total restricted	12,294,409	13,930,092	-	-	26,224,501	25,842,497
Unrestricted	4,155,900	17,755,512	(547,894)	(1,386,717)	19,976,801	18,987,360
<b>Total net position</b>	<b>67,739,887</b>	<b>57,675,038</b>	<b>4,353,236</b>	<b>20,551,937</b>	<b>150,320,098</b>	<b>149,617,891</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 105,933,024</b>	<b>\$ 214,827,519</b>	<b>\$ 5,104,304</b>	<b>\$ 26,556,062</b>	<b>\$ 348,963,607</b>	<b>\$ 356,761,628</b>

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, 2020	2019
<b>Operating Revenues</b>						
Sales to retail customers						
Ponderay Newsprint Company	\$ 13,606,670	\$ -	\$ -	\$ -	\$ 13,606,670	\$ 31,142,954
Other retail customers	17,095,448	-	484,578	2,431,314	20,011,340	20,093,997
Sales to other utilities	11,645,161	-	-	-	11,645,161	4,603,563
Intersystem sales	164,659	18,326,191	-	698,327	-	-
Contributed capital	1,034,773	-	884	319,421	1,355,078	1,434,188
Other	431,630	6,600	82,838	44,874	252,170	258,738
<b>Total operating revenues</b>	<b>43,978,341</b>	<b>18,332,791</b>	<b>568,300</b>	<b>3,493,936</b>	<b>46,870,419</b>	<b>57,533,440</b>
<b>Operating Expenses</b>						
Power costs	\$ 29,101,215	\$ 217,088	\$ -	\$ -	\$ 10,992,112	\$ 15,164,787
Operations and maintenance	6,861,760	5,293,708	338,287	1,016,488	12,635,365	13,792,323
Administrative and general	3,753,354	2,602,013	193,359	314,920	6,561,766	6,416,625
Taxes	1,787,025	99,747	24,486	22,778	1,934,036	2,926,553
Pension expense (credit)	(770,452)	(335,520)	(49,707)	(86,987)	(1,242,666)	(1,172,999)
Depreciation and amortization	3,684,227	3,578,503	204,583	2,505,142	9,972,455	10,385,981
<b>Total operating expenses</b>	<b>44,417,129</b>	<b>11,455,539</b>	<b>711,008</b>	<b>3,772,341</b>	<b>40,853,068</b>	<b>47,513,270</b>
<b>Net operating revenues (expenses)</b>	<b>(438,788)</b>	<b>6,877,252</b>	<b>(142,708)</b>	<b>(278,405)</b>	<b>6,017,351</b>	<b>10,020,170</b>
<b>Nonoperating Revenues (Expenses)</b>						
Interest income	83,315	160,530	336	3,364	244,176	771,669
Interest on debt	(213,609)	(5,898,634)	(933)	(98,427)	(6,209,109)	(6,936,621)
Subsidies on debt	-	628,369	-	-	628,369	686,792
Sullivan net expense	(171,897)	-	-	-	(171,897)	(37,169)
Grant revenue	54,624	-	40,953	52,395	147,972	-
Other, net	45,346	-	(876)	-	45,345	243,020
<b>Total nonoperating revenues (expenses)</b>	<b>(202,221)</b>	<b>(5,109,735)</b>	<b>39,480</b>	<b>(42,668)</b>	<b>(5,315,144)</b>	<b>(5,272,309)</b>
<b>Change in net position</b>	<b>(641,009)</b>	<b>1,767,517</b>	<b>(103,228)</b>	<b>(321,073)</b>	<b>702,207</b>	<b>4,747,861</b>
<b>Accumulated Net Position</b>						
Beginning of year	68,380,896	55,907,521	4,456,464	20,873,010	149,617,891	144,870,030
End of year	\$ 67,739,887	\$ 57,675,038	\$ 4,353,236	\$ 20,551,937	\$ 150,320,098	\$ 149,617,891

See accompanying notes.

## Combined Statements of Cash Flows

Public Utility District No. 1 of Pend Oreille County

Combined Statements of Cash Flows	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total	
					Year ended December 31, 2020	2019
<b>Cash Flows from Operating Activities</b>						
Receipts from customers	\$ 29,990,479	\$ -	\$ 460,643	\$ 2,768,050	\$ 33,219,172	\$ 53,066,459
Receipts from other operating revenues	11,704,539	6,600	71,762	-	11,782,901	4,714,852
Payments to suppliers for goods and services	(16,571,956)	(3,704,630)	(88,973)	(187,504)	(20,553,063)	(24,658,671)
Payments to employees for services	(7,729,564)	(3,568,843)	(451,989)	(863,455)	(12,613,851)	(12,543,108)
Payments to (from) other systems	(18,816,712)	17,923,106	415,887	477,719	-	-
<b>Net cash from operating activities</b>	<b>(1,423,214)</b>	<b>10,656,233</b>	<b>407,330</b>	<b>2,194,810</b>	<b>11,835,159</b>	<b>20,579,532</b>
<b>Cash Flows from Noncapital Financing Activities</b>						
Nonoperating asset receipts from revenues	(28,488)	-	-	-	(28,488)	126,722
Receipts from government agencies	45,677	-	-	-	45,677	-
Proceeds from grant funding	104,129	-	-	52,395	156,524	-
Intersystem financing	371,022	-	(539)	(370,483)	-	-
<b>Net cash from noncapital financing activities</b>	<b>492,340</b>	<b>-</b>	<b>(539)</b>	<b>(318,088)</b>	<b>173,713</b>	<b>126,722</b>
<b>Cash Flows From Capital and Related Financing Activities</b>						
Acquisition and construction of capital assets	(2,481,056)	(500,836)	(439,026)	(646,332)	(4,067,250)	(4,930,078)
Proceeds from sale of assets	35,335	8,888	-	16,700	60,923	279,733
Proceeds from grant funding	-	-	40,953	-	40,953	-
Proceeds from issuance of revenue bond	-	-	-	-	-	43,914,923
Proceeds from issuance of note payable	-	-	29,956	-	29,956	-
Payments on revenue bonds	(150,000)	(3,800,714)	-	(767,510)	(4,430,714)	(51,101,645)
Interest paid on revenue bonds	(278,246)	(6,178,776)	-	(150,982)	(6,605,510)	(7,235,573)
Subsidy received on revenue bonds	-	628,369	-	-	628,369	686,792
Payments on notes payable	(13,333)	-	(37,593)	-	(50,926)	(50,926)
Interest paid on notes payable	-	-	(1,081)	-	(1,081)	(1,936)
<b>Net cash from capital and related financing activities</b>	<b>(2,887,300)</b>	<b>(9,843,069)</b>	<b>(406,791)</b>	<b>(1,548,124)</b>	<b>(14,395,280)</b>	<b>(18,438,710)</b>
<b>Cash Flows from Investing Activities</b>						
Purchases of investments	(4,676)	(46,833)	-	-	(51,509)	(3,728,995)
Sales and maturities of investments	10,000,000	287,510	-	-	10,000,000	5,226,971
Interest on investments, contracts, and notes	82,775	160,530	-	3,364	244,175	501,052
<b>Net cash from investing activities</b>	<b>10,078,099</b>	<b>401,207</b>	<b>-</b>	<b>3,364</b>	<b>10,192,666</b>	<b>1,999,028</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>6,259,925</b>	<b>1,214,371</b>	<b>-</b>	<b>331,962</b>	<b>7,806,258</b>	<b>4,266,572</b>
<b>Cash and Cash Equivalents</b>						
Beginning of year	28,926,808	28,943,080	-	919,319	58,789,207	54,522,635
End of year	\$ 35,186,733	\$ 30,157,451	\$ -	\$ 1,251,281	\$ 66,595,465	\$ 58,789,207

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,	
					2020	2019
Net operating revenues (expenses)	\$ (438,788)	\$ 6,877,252	\$ (142,708)	\$ (278,405)	\$ 6,017,351	\$ 10,020,170
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities:						
Depreciation and amortization	3,684,227	3,578,503	204,583	2,505,142	9,972,455	10,385,981
Changes in operating assets and liabilities						
Receivables	(2,116,936)	1,682	(63,643)	(4,934)	(2,183,831)	162,841
Unbilled revenue	588,231	-	-	-	588,231	57,567
Due to (from) other systems	(441,735)	-	441,735	-	-	-
Materials and supplies	225,560	29,195	3,068	80,387	338,210	279,508
Prepaid expenses and other current assets	129,770	(18,507)	-	-	111,263	(97,593)
Unearned revenue	-	-	-	(49,588)	(49,588)	(49,588)
Deferred relicensing costs	-	529,081	-	-	529,081	1,905,276
Pension	(770,452)	(335,520)	(49,707)	(86,987)	(1,242,666)	(1,172,999)
Accounts payable, customer deposits, and prepayments	(2,181,467)	(1,529)	13,937	28,354	(2,140,705)	(897,828)
Accrued compensation, benefits, and taxes	(101,624)	(3,924)	65	841	(104,642)	(13,803)
Net cash from operating activities	\$ (1,423,214)	\$ 10,656,233	\$ 407,330	\$ 2,194,810	\$ 11,835,159	\$ 20,579,532
<b>Supplemental Disclosure of Noncash Activities</b>						
Construction costs included in accounts payable	\$ -	\$ 441,316	\$ -	\$ -	\$ 441,316	\$ -

## 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 additional 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 January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, to improve the guidance regarding the identification of fiduciary activities for financial reporting purposes. The District adopted this statement effective January 1, 2019, and added Statements of Fiduciary Net Position and Changes in Fiduciary Net Position as of December 31, 2019. In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, amending guidance regarding component unit criteria and the reporting of certain defined contribution pension plans. The District has early adopted GASB 97 effective December 31, 2020 and has determined that the District meets the exception included in GASB 97 in applying component unit criteria to defined contribution pension plans. As a result, the District's defined contribution pension plans are no longer considered component units for reporting purposes.

The District has removed the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position – Pension Fund previously included in the District's 2019 financial report.

**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 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

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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, 2020 and 2019 was \$39,600 and \$21,000, respectively.

**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 third parties 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 fair value 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 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 \$483,486 and \$533,074 as of December 31, 2020 and 2019, 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

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

cash requirement of an American Recovery and Reinvestment Act grant. The unamortized balance associated with this payment was \$2,698,910 and \$3,056,060 as of December 31, 2020 and 2019, 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, 2020 and 2019 was \$11,104,434 and \$11,132,922, respectively.

The Ponderay Newsprint Company previously posted \$10 million with the District as contract security. Upon Ponderay Newsprint Company's closure, the District deposited the \$10 million as unrestricted funds and will be amortizing the balance on a straight-line basis over the 5 year life of the replacement Shell Energy North America agreement (Note 5), beginning January 1, 2021.

**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; and funds reserved for use in the event that the District loses a major source of revenue.

**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; and market and credit risks inherent in buying and selling of power, a commodity with inelastic demand characteristics and minimal storage capability.

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

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

### 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, 2020, 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,	
					2020	2019
Cash deposits	\$23,345,027	\$10,519,287	\$ -	\$ 1,251,281	\$35,115,595	\$27,508,955
Local government investment pool	11,841,706	19,638,164	-	-	31,479,870	31,280,252
U.S. Treasuries, at market	1,011,137	10,127,008	-	-	11,138,145	21,397,535
<b>Total Cash and Investments</b>	<b>\$36,197,870</b>	<b>\$40,284,459</b>	<b>\$ -</b>	<b>\$ 1,251,281</b>	<b>\$77,733,610</b>	<b>\$80,186,742</b>

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,	
					2020	2019
Unrestricted cash & cash equivalents						
Revenue funds	\$12,554,377	\$23,135,881	\$ -	\$ 1,251,281	\$36,941,539	\$29,797,406
Restricted cash & cash equivalents						
Bond principal and interest	790,650	7,021,570	-	-	7,812,220	7,118,113
Contract obligation	11,841,706	-	-	-	11,841,706	11,873,688
Rate stabilization	10,000,000	-	-	-	10,000,000	10,000,000
Subtotal	\$22,632,356	\$ 7,021,570	\$ -	\$ -	\$29,653,926	\$28,991,801
Unrestricted short-term investments						
Revenue funds	\$ 59,000	\$ 391,000	\$ -	\$ -	\$ 450,000	\$ -
Restricted short-term investments						
Bond reserve	952,137	9,736,008	-	-	10,688,145	11,086,636
Contract security	-	-	-	-	-	10,310,899
Subtotal	\$ 952,137	\$ 9,736,008	\$ -	\$ -	\$10,688,145	\$21,397,535
Total Funds	\$36,197,870	\$40,284,459	\$ -	\$ 1,251,281	\$77,733,610	\$80,186,742

**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 2020 and 2019, 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.

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.

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

**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.

**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** - The Ponderay Newsprint Company previously elected to post a \$10 million cash contract security in lieu of a letter of credit. The contract security was deposited into unrestricted funds upon Ponderay Newsprint Company's closure (Note 5).

**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 into the rate stabilization account for the year ended December 31, 2019 to bring the balance to \$10,000,000. No deposits were made to the rate stabilization account for the year ended December 31, 2020.

**Investments** - The District holds investments that are measured at fair value as of December 31, 2020 and 2019. 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.

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Investments by fair value level	Total as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 11,138,145	\$ -	\$ 11,138,145	\$ -

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	-
<b>Total</b>	<b>\$ 21,397,535</b>	<b>\$ -</b>	<b>\$ 21,397,535</b>	<b>\$ -</b>

### Note 3 - Utility Plant

The following changes occurred in the District's utility plant for the years ended December 31, 2020 and 2019:

	2019 Balance	Additions	Retirements/ Transfers	2020 Balance
Land and land rights	\$ 4,421,497	\$ -	\$ -	\$ 4,421,497
Hydroelectric plant and equipment	151,359,175	-	(39,363)	151,319,812
Structures, buildings, and equipment	173,229,204	20,621	2,969,348	176,219,173
Intangible assets	14,115,819	-	63,783	14,179,602
Construction work in progress	48,174,200	4,110,381	(4,101,492)	48,183,089
	391,299,895	4,131,002	(1,107,724)	394,323,173
Less accumulated depreciation and amortization	130,864,796	9,972,455	(693,906)	140,143,345
<b>Net Utility Plant</b>	<b>\$ 260,435,099</b>	<b>\$ (5,841,453)</b>	<b>\$ (413,818)</b>	<b>\$ 254,179,828</b>

	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
<b>Net Utility Plant</b>	<b>\$ 265,505,570</b>	<b>\$ (4,775,614)</b>	<b>\$ (294,857)</b>	<b>\$ 260,435,099</b>

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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 litigation related to 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 \$3,774,286 and \$3,522,779 as of December 31, 2020 and 2019, respectively.

### Note 4 - Long-Term Debt

During the year ended December 31, 2020 the following changes occurred in long-term debt:

Electric System Issue	Balance Dec 31, 2019	Additions	Reductions	Balance Dec 31, 2020	Amounts due within one year
<b>2019 Revenue Refunding Bonds</b>	\$ 8,680,000	\$ -	\$ 150,000	\$ 8,530,000	\$ 605,000
Due in annual installments through January 1, 2031; interest at 3.00% - 5.00%.					
Subtotal	\$ 8,680,000	\$ -	\$ 150,000	\$ 8,530,000	\$ 605,000
Unamortized premiums (discounts)	913,632	-	177,269	736,363	-
Other long-term debt	80,000	-	13,333	66,667	13,333
<b>Total Debt:</b>	<b>\$ 9,673,632</b>	<b>\$ -</b>	<b>\$ 340,602</b>	<b>\$ 9,333,030</b>	<b>\$ 618,333</b>

Box Canyon Production System Issue	Balance Dec 31, 2019	Additions	Reductions	Balance Dec 31, 2020	Amounts due within one year
<b>2008 Clean Renewable Energy Tax Credit Bond (CREB)</b>	\$ 191,429	\$ -	\$ 95,715	\$ 95,714	\$ 95,714
Due in annual installments through December 2021; interest at 1.35%.					
<b>2012 Clean Renewable Energy Bonds</b>	24,630,000	-	2,155,000	22,475,000	2,165,000
Due in annual installments through January 1, 2030; interest at 0.834% - 4.571% and subject to subsidy payment.					
<b>2018 Revenue and Refunding Bonds</b>	83,400,000	-	1,550,000	81,850,000	1,630,000
Due in annual installments through 2048; interest at 5%.					
<b>2019 Revenue Refunding Bonds</b>	30,640,000	-	-	30,640,000	-
Due in annual installments through 2041; interest at 3.0 - 5.0%.					
Subtotal	\$ 138,861,429	\$ -	\$ 3,800,715	\$ 135,060,714	\$ 3,890,714
Unamortized bond premiums	9,851,229	-	657,621	9,193,608	-
Unamortized bond discount	(120,511)	-	(12,835)	(107,676)	-
<b>Total Debt:</b>	<b>\$ 148,592,147</b>	<b>\$ -</b>	<b>\$ 4,445,501</b>	<b>\$ 144,146,646</b>	<b>\$ 3,890,714</b>

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 Issue	Balance			Balance Dec 31, 2020	Amounts due within one year
	Dec 31, 2019	Additions	Reductions		
<b>Sunvale Water System</b> Department of Community, Trade and Economic Development Loan Due in annual installments through October 2020; interest at 2.5%.	\$ 9,980	\$ -	\$ 9,980	\$ -	\$ -
<b>Sunvale Water System</b> Public Works Board Loan Due in annual installments through June 2039; interest at 1.27%.	-	29,956	-	29,956	1,577
<b>Riverbend Water System</b> Department of Community, Trade and Economic Development Loan Due in annual installments through October 2020; interest at 2.5%.	22,018	-	22,018	-	-
<b>Granite Shores Water System</b> Public Works Board Loans Due in annual installments through October 2026; interest at 1%.	28,029	-	5,595	22,434	5,595
<b>Total Debt:</b>	<b>\$ 60,027</b>	<b>\$ 29,956</b>	<b>\$ 37,593</b>	<b>\$ 52,390</b>	<b>\$ 7,172</b>

In November 2019, the Washington State Public Works Board issued the District a loan in an amount not to exceed \$581,200 for the replacement of water distribution lines for the Sunvale Water System. Monies are distributed upon request for reimbursement of project expenditures. The loan balance accrues interest at 1.27%, due annually with the principal payment on June 1 each year over the 20 year term. The first draw on the loan was made during 2020 in the amount of \$29,956.

In October 2019, Washington State Department of Health awarded the District a Drinking Water State Revolving Fund Loan in the amount of \$248,500 to fund the installation of a water filtration system for the Riverview Water System. The principal on the loan is 100% forgiven. In December 2020, the District requested an additional \$248,500, which will have an interest rate of 1.25% and will be payable over 24 years. Monies are distributed upon request for reimbursement of project expenditures, and as no reimbursement requests had been submitted as of December 31, 2020, no liability has been recorded.

Community Network System Issue	Balance			Balance Dec 31, 2020	Amounts due within one year
	Dec 31, 2019	Additions	Reductions		
<b>2017 Revenue Bonds</b> Due in semi-annual installments through January 1, 2027; interest at 3.88%.	\$ 2,709,000	\$ -	\$ 480,000	\$ 2,229,000	\$ 169,000
<b>2013 Revenue Bonds</b> Due in monthly installments through January 1, 2027; interest at the LGIP rate.	445,899	-	287,510	158,389	158,389
Subtotal	\$ 3,154,899	\$ -	\$ 767,510	\$ 2,387,389	\$ 327,389
Due to other systems	80,000	-	13,333	66,667	13,333
<b>Total Debt:</b>	<b>\$ 3,234,899</b>	<b>\$ -</b>	<b>\$ 780,843</b>	<b>\$ 2,454,056</b>	<b>\$ 340,722</b>

## 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
2021	356,175	618,333	974,508	6,358,210	3,890,714	10,248,924
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	258,550	713,334	971,884	5,829,478	4,100,000	9,929,478
2025-2029	726,700	4,073,334	4,800,034	25,917,663	22,950,000	48,867,663
2030-2034	56,325	1,865,000	1,921,325	20,273,500	25,080,000	45,353,500
2035-2039	-	-	-	13,788,750	30,530,000	44,318,750
2040-2044	-	-	-	6,563,575	24,185,000	30,748,575
2045-2048	-	-	-	1,695,500	16,450,000	18,145,500

	Community Network System			Water System		
	Interest	Principal	Total	Interest	Principal	Total
2021	89,725	327,389	417,114	493	7,172	7,665
2022	76,669	343,000	419,669	528	7,172	7,700
2023	63,225	356,000	419,225	452	7,172	7,624
2024	49,276	371,000	420,276	376	3,459	3,835
2025-2029	58,336	990,000	1,048,336	1,359	11,648	13,007
2030-2034	-	-	-	801	7,883	8,684
2035-2039	-	-	-	300	7,884	8,184

### 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 was obligated to provide all power necessary to operate both the fiber mill and paper plant. Power delivery under these contracts was set to expire in 2027. Historically, approximately 70% of Electric System retail energy deliveries and approximately 60% of retail energy sale revenues were to PNC.

In June 2020, PNC closed its operations and declared chapter 7 bankruptcy. The District promptly requested and received the full, unrestricted value of PNC's \$10 million cash collateral in satisfaction of the secured portion of the District's claim. The District also filed a claim for \$22,263,471, representing the unsecured amount of the District's claim. The PNC site is currently under the management of the bankruptcy trustee, and is being maintained to avoid the plant falling into disrepair while the site is being marketed for sale. The District continues to provide a limited amount of maintenance power to the site, with payments and adequate assurances being provided by the bankruptcy estate.

PNC's closure left the District with substantially more power resources than its native load requirements. The District immediately began selling its excess Box Canyon power to Portland General Electric under contract parameters established for this contingency. Sale of this power was established at market rates, plus an adder for the zero-carbon attributes of Box Canyon power, and did not fully cover the District's cost to produce Box Canyon power due to market price conditions during 2020.

**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, Seattle City Light was required to assign to the District up to 48 megawatts of energy and capacity at cost, based on the District's weekly system load factor. After the Boundary Project was issued a new 42-year FERC license in March 2013, Seattle

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

City Light and the District entered into a contract in 2014 (the "Boundary Power Assignment Agreement") that continues to obligate Seattle City Light to deliver up to 48 megawatts of energy and capacity to the District, along with a pro rata share of the Boundary Project's environmental attributes. The District continues to receive this power assignment on an at-cost basis, with assignment volumes based on the District's weekly system load factor. 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.

Power allocations are dependent on the District's overall customer load. The District received an hourly average of 21 megawatts of Shaped Block purchases for the fiscal year ended September 30, 2020, and did not receive any Slice of the System purchases. With the closure of Ponderay Newsprint Company, BPA concluded that the District's energy needs no longer exceeded District owned resources and as of October 1, 2020, the District's monthly Shaped Block purchases were reduced to zero. The BPA Contract remains in effect through September 30, 2028, with the District's net requirements being determined on an annual basis.

**Portland General Electric** - The District entered into a contract in 2019 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-megawatt premium for delivered Box Canyon Project power based on the carbon-free attributes of such power. The premium was \$3.00 per megawatt hour (MWh) for the first 50 MWh of energy delivered and \$2.25 per MWh in excess of 50 MW. Due to Ponderay Newsprint Company's closure, PGE no longer returned PGE system power to the District and rather purchased the Box Canyon power at a day-ahead market price, plus the zero-carbon adder, effective July 9, 2020. The contract expired by its terms on December 31, 2020.

**Shell Energy North America** - In late 2020, the District entered into a five-year agreement with Shell Energy North America, (US), L.P. ("Shell") effective January 1, 2021. Under the agreement, the District sells to Shell all power generated by the Box Canyon Project as well as energy received from Seattle City Light under the Boundary Power Assignment Agreement, and the District purchases from Shell firm energy in monthly blocks, the amounts of which are intended to match the District's average monthly energy load. The net transaction results in fixed payments from Shell to the District over the five-year period.

**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 2020 and 2019. 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.

### 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

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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

### Benefits provided

**PERS Plan 1** - Provides retirement, disability, and death benefits. Retirement benefits are determined as 2% times 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 if a survivor benefit is chosen. Members retiring from inactive status before age 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). Members became vested after the completion of five years of eligible service.

**PERS Plan 2/3** - PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% times the member's AFC times the member's years of service for Plan 2. Defined benefits for Plan 3 are calculated using 1% times the member's AFC times the member's years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months.

Members are eligible for retirement with a full benefit at age 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 members are vested after completing five years of eligible service.

PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Plan 2/3 benefits include a COLA based on the Consumer Price Index, capped at 3% annually.

Annuities purchased with Plan 3 defined contributions that are invested within the Washington State Investment Board Total Allocation Portfolio (WSIB TAP) by Plan 3 members are considered defined benefits. Plan 3 Washington WSIB TAP annuities are actuarially reduced if a survivor benefit is chosen and purchased annuities include a COLA of 3% annually.

**PERS Plan 3** - Defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. 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, and are immediately vested in the defined contribution portion of their plan.

### Contributions

**PERS Plan 1 contributions** - The PERS Plan 1 member contribution rate is established by statute at 6%. 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.

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

**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 rate includes a component to address the PERS Plan 1 unfunded actuarial accrued liability (UAAL).

**PERS Plan 3 contributions** – As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

Required contribution rates (expressed as a percentage of covered payroll) at the close of fiscal year 2020 were as follows:

Actual Contribution Rates	Employer	Employee
PERS Plan 1	12.86%	6.00%
PERS Plan 2/3	12.86%	7.90%
PERS Plan 3	12.86%	5.00% - 15.00%

Both the District and the employees made the required contributions during fiscal years 2020 and 2019. The District's required employer contributions for the years ended December 31 were as follows:

Required Employer Contributions	2020	2019
PERS Plan 1	\$ 397,440	\$ 406,800
PERS Plan 2/3	656,971	631,957
Total	\$ 1,054,411	\$ 1,038,757

**Actuarial assumptions** - The total pension liability for each of the plans was determined by an actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020, 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 developed using the Society of Actuaries' Publication H-2010 Mortality rates, which vary by member status (active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the 2013-2018 *Demographic Experience Study Report* and the 2019 *Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2019 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.

## Notes to Combined Financial Statements

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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

The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various future time horizons. 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, 2020, 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%. 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. Based on the assumptions described in the Actuarial Certification Letter, the pension plan's 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% on pension plan investments was applied to determine the total pension liability.

**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	\$ 2,418,060	\$ 1,930,499	\$ 1,505,296
Proportionate share of the PERS Plan 2/3 net pension liability (asset)	\$ 5,667,396	\$ 910,825	\$ (3,006,214)

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, 2020, is as follows:

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Proportionate Share of Plan			
Net Pension Liability	PERS Plan 1	PERS Plan 2/3	Total
Electric System	\$ 1,196,909	\$ 564,712	\$ 1,761,621
Box Canyon Production System	521,235	245,922	767,157
Water System	77,220	36,433	113,653
Community Network System	135,135	63,758	198,893
Total	\$ 1,930,499	\$ 910,825	\$ 2,841,324

**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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020. 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, 2019, through June 30, 2020, 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, 2020	0.054680%	0.071217%
Percent share as of June 30, 2019	0.059580%	0.076934%
Net pension liability as of December 31, 2020	\$1,930,499	\$910,825
Pension expense (credit) recognized as of December 31, 2020	(\$504,029)	(\$738,637)

At December 31, 2020, 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	\$ -	\$ -	\$ 326,061	\$ (114,148)
Changes in actuarial assumptions	-	-	12,973	(622,172)
Difference between projected and actual investment earnings	-	(10,748)	-	(46,257)
Changes in proportion	-	-	(587,821)	-
Contributions paid to PERS subsequent to the measurement date	197,816	-	324,824	-
Difference between actual and proportionate employer contributions	-	-	-	-
Total	\$ 197,816	\$ (10,748)	\$ 76,037	\$ (782,577)

The \$197,816 reported as deferred outflows of resources for PERS Plan 1 and \$324,824 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, 2021. Other amounts reported as deferred outflows and inflows of resources related to each plan will be recognized in pension expense as follows:

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Deferred Outflows and Inflows of Resources Recognized in Pension Expense	PERS Plan 1		PERS Plan 2/3	
2021	\$ (48,776)	\$ (516,332)		
2022	(1,534)	(228,734)		
2023	14,883	(122,205)		
2024	24,679	(9,387)		
2025	-	(85,516)		
2026 and Thereafter	-	(69,186)		
Total	\$ (10,748)	\$ (1,031,360)		

**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 2020 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](http://www.drs.wa.gov).

**Defined contribution pension plans** - The District maintains a defined contribution plan in accordance with the Internal Revenue Code Section 401(a). 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 3% employer match on a 6% employee deferral. District contributions and earnings for each employee are immediately fully vested. Employer contributions to this plan for 2020 and 2019 were \$171,872 and \$129,318 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.

The District also maintains a deferred compensation pension 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.

**Savings plan** - 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 \$185 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 \$160 monthly contribution if they participate in District-sponsored wellness programs.

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

### 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	
	2020	2019	2020	2019
Electric System	\$ 223,516	\$ 168,394	\$ 42,988	\$ 37,916
Box Canyon Production System	120,525	72,699	176,807	157,833
Water System	10,900	5,482	3,395	3,028
Community Network System	28,043	17,334	754	658
Total	\$ 382,984	\$ 263,909	\$ 223,944	\$ 199,435

**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 issued a 50-year license for the District's Box Canyon Hydroelectric Project (Box Canyon Dam), which expires on July 1, 2055. The license contains several conditions, including environmental studies and projects initiated by state and federal agencies and the Kalispel

## Notes to Combined Financial Statements

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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, water quality, 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 has been constructing an upstream fish passage facility at Box Canyon Dam over the last several years. The District has expended \$40 million on the project through December 31, 2020. The District and its general contractor have had several disputes throughout the contract, and the parties were able to reach a final settlement agreement in mid-2020 that ensures the project will be timely completed. Final payment to the project contractor of \$1,443,246 will be made upon final completion of the remaining technical items and verification that the contractor has met Washington State contracting requirements. The project is expected to be operational in the fall of 2021.

**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 2020 and 2019, the Kalispel Tribe chose to have the District purchase the power at generation cost. Power sales on the Kalispel Tribe's behalf totaled \$230,050 and \$230,007 in 2020 and 2019, 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 Calispell Creek Pumping Plant. In conjunction with the amendment (which is pending FERC approval), the District executed an off-license agreement with the Kalispel Tribe of Indians to provide for alternative 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. The District accrued an additional \$600,000 during 2020 for additional water-quality measures under the off-license agreement. The District had originally anticipated approval by FERC of the license amendment by June 2020, but due to FERC delays the District now expects that approval will occur by June 2021.

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

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 a settlement agreement between Seattle City Light, the District, and other related parties, Seattle City Light agreed to pay the full cost to remove 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 Outlet Creek. Removal of Mill Pond Dam and construction of the cold water pipe have been completed. Once further monitoring and procedures per the terms and conditions of the negotiated agreement and FERC Surrender Order are met and approved by FERC, which is expected by 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 Washington State Department of Ecology to sell certain Sullivan-related water rights to the State of Washington through the Department of Ecology's Office

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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 are 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, for which the District would remain responsible in order to complete the license surrender.

**Transmission Line Right-of-Way Agreement** - In 1997, the District entered into a rental agreement with the Port of Pend Oreille County for use of its 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, and agreed to a one-year extension for 2020 with an associated \$185,000 payment to allow the parties time to evaluate a longer-term agreement. In December 2020, the Port entered into a transaction with TerraPact Assets, LLC, under which (among other things) TerraPact will manage the Port's right-of-way. The District and TerraPact have been engaged to negotiate a potential extension through 2021, along with a potential longer-term agreement.

**COVID-19 Pandemic** - In March 2020, the State of Washington was declared an area of major disaster due to the COVID-19 Pandemic. 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. Aside from the loss of the power sales contracts due to the bankruptcy of Ponderay Newsprint Company, as described in Note 5, the District did not realize a significant loss of sales to other customers during 2020. A decrease in Electric System sales to commercial and industrial customers was offset by an increase in sales to residential customers and revenue from Community Network System services. Additionally, uncollectible customer accounts did not increase significantly. Due to the nature and timing of the pandemic events, an estimate of the future financial impact to the District cannot be made for these financial statements.

**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 2020, NoaNet issued Telecommunications Network Revenue Bonds in the amount of \$24,775,000. Proceeds from the bonds were used to refund all outstanding debt, including all Member Agreements, leaving \$10 million available for upcoming capital projects. The Bonds were structured with level debt service with annual payments from 2021 through 2030. Yields on the Bonds ranged from 0.591% in 2021 to 2.120% in 2030. The all-in

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

interest cost was 1.90%. The District's 5.76% guarantee share of the debt outstanding as of December 31, 2020 is \$1,427,040.

In 2019, NoaNet reported a net operating loss of \$6,109,070, \$459,739 of nonoperating expense, and a total decrease in net position of \$6,568,809. The 2020 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](http://www.noanet.net).

### Note 10 - Grants

**Washington State Community Economic Revitalization Board (CERB)** – In September 2019, Washington State awarded the District 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, which was funded using the Public Works Board grant funds discussed below. The project was completed in 2020 and the District incurred \$52,395 in costs and associated grant revenue during 2020.

**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 were used in conjunction with the CERB grant funds for the North Pend Oreille County Feasibility Study discussed above.

**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 expended \$37,665 for this project as of December 31, 2020.

**Washington State Department of Commerce** – In September 2020, Washington State awarded the District a grant in the amount of \$50,000 to perform a Child Care Feasibility Study. The Seattle Foundation awarded an additional \$50,000 to the District as a private matching award for the project. The study will investigate the potential for increasing the capacity of early childhood programs to serve the needs of the City of Newport and the outlying Pend Oreille County communities. \$330 was expended on this project as of December 31, 2020.

**Washington State Department of Health – Office of Drinking Water** – In January 2020, Washington State awarded the District a grant in the amount of \$30,000. The funds from this grant will be used to fund a preliminary engineering and feasibility study for Cusick water treatment plant upgrades. The District completed its involvement in the project in 2020, and the District realized \$3,288 in costs and associated revenue in 2020.

**Washington State Department of Commerce - CARES Funds** – In September 2020, Washington State Department of Commerce awarded Coronavirus Relief Funds to Pend Oreille County. In November 2020, Pend Oreille County entered into an agreement with the District to allocate portions of the funding to Pend Oreille County residents experiencing severe financial hardship resulting from the COVID-19 emergency. The District allocated funds to customers who needed utility payment assistance and the District realized \$38,419 in costs and associated revenue in 2020.

**Federal Emergency Management Agency (FEMA)** – In May 2020, the District was awarded FEMA funding through the Washington State Military Department's FEMA Public Assistance program, to support the District's emergency response to the COVID-19 outbreak. Eligible spending under the award included 75% of costs incurred for personal protective gear, cleaning and sanitation supplies, educational signage, and other health and safety items. Under the program, the District received reimbursements of \$11,894 covering \$15,859 in eligible expenses for the year ended December 31, 2020.

## Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

### Note 11 – Subsequent Events

In February 2021, Seattle City Light and the District entered into a settlement agreement to resolve several disputes regarding the Boundary Power Assignment Agreement, including disputes over environmental attributes of the Boundary Project and an overbilling error that was discovered in late 2020. The settlement agreement term runs through December 31, 2029, after which the Boundary Power Assignment Agreement will operate as it existed prior to the settlement agreement, unless otherwise agreed by the parties. In exchange for the District waiving its right to environmental attributes of Boundary Dam for the 9-year term, the settlement agreement removes the load-factor calculus, establishes a fixed schedule of power deliveries for each month of the settlement term (shaped monthly based on heavy-load and light-load hours), and fixes an annual cost escalator for the District's cost share. Over the 9-year term, the District anticipates receiving approximately 600,000 more MWhs than it would have otherwise received, which will either be used for native load service or resold outside the District's service territory.

Required Supplementary Information

## Required Supplementary Information

Public Utility District No. 1 of Pend Oreille County

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

	Employer's proportionate share of the net pension liability		Employer's covered employee payroll		Employer's proportion of the net pension liability (asset)	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
2020	\$ 1,930,499	\$ 910,825	\$ 8,300,145	\$ 8,300,145	0.054680%	0.071217%
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%

	Employer's proportionate share of net pension liability as a percentage of covered employee payroll		Plan fiduciary net position as a percentage of the total pension liability	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
2020	23.26%	10.97%	68.64%	97.22%
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%		

## Required Supplementary Information

Public Utility District No. 1 of Pend Oreille County

### Schedule of Employer Contributions as of December 31

	Statutorily or contractually required contributions		Contributions in relation to the statutorily or contractually required contributions		Contribution deficiency (excess)	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
2020	\$ 397,440	\$ 656,971	\$ (397,440)	\$ (656,971)	\$ -	\$ -
2019	\$ 406,800	\$ 631,957	\$ (406,800)	\$ (631,957)	\$ -	\$ -
2018	\$ 434,106	\$ 643,488	\$ (434,106)	\$ (643,488)	\$ -	\$ -
2017	\$ 416,156	\$ 579,483	\$ (416,156)	\$ (579,483)	\$ -	\$ -
2016	\$ 412,225	\$ 538,399	\$ (412,225)	\$ (538,399)	\$ -	\$ -
2015	\$ 405,744	\$ 520,400	\$ (405,744)	\$ (520,400)	\$ -	\$ -
2014	\$ 372,964	\$ 461,531	\$ (372,964)	\$ (461,531)	\$ -	\$ -

	Covered employer payroll		Contributions as a percentage of covered employee payroll	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
2020	\$ 8,295,085	\$ 8,295,085	4.79%	7.92%
2019	\$ 8,202,549	\$ 8,202,549	4.96%	7.70%
2018	\$ 8,581,426	\$ 8,581,426	5.07%	7.52%
2017	\$ 8,511,531	\$ 8,511,531	4.88%	6.80%
2016	\$ 8,642,042	\$ 8,642,042	4.83%	6.31%
2015	\$ 9,298,258	\$ 9,298,258	4.32%	5.54%
2014	\$ 9,241,367	\$ 9,241,367	4.02%	4.98%

\*As this is a newly adopted standard, information is only available for the last seven 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

	2020	2019	2018	2017	2016
<b>Average number of customers</b>					
Residential	8,585	8,435	8,307	8,205	8,126
Commercial	849	849	842	842	843
Industrial	14	12	9	8	8
Other	82	81	80	80	79
<b>Total</b>	<b>9,530</b>	<b>9,377</b>	<b>9,238</b>	<b>9,135</b>	<b>9,056</b>
<b>Revenues from sale of energy (000s)</b>					
Residential	\$ 11,119	\$ 10,821	\$ 10,283	\$ 10,577	\$ 9,372
Commercial	2,868	3,057	2,935	2,836	2,508
Industrial	16,685	34,670	33,767	32,081	32,165
Other	30	30	30	34	40
<b>Total District customers</b>	<b>30,702</b>	<b>48,578</b>	<b>47,015</b>	<b>45,528</b>	<b>44,085</b>
Intersystem sales	165	141	198	185	164
Sales for resale	11,645	4,604	4,574	1,937	1,492
<b>Total energy sales</b>	<b>42,512</b>	<b>53,323</b>	<b>51,787</b>	<b>47,650</b>	<b>45,741</b>
Other operating revenues	1,517	1,559	1,099	1,181	1,317
<b>Total</b>	<b>\$ 44,029</b>	<b>\$ 54,882</b>	<b>\$ 52,886</b>	<b>\$ 48,831</b>	<b>\$ 47,058</b>
<b>Energy (MWh)</b>					
Residential	157,656	153,095	145,100	153,606	132,802
Commercial	48,756	51,529	49,370	51,337	45,462
Industrial	305,440	751,930	802,274	795,231	762,914
Other	145	145	145	267	302
<b>Total District customers</b>	<b>511,997</b>	<b>956,699</b>	<b>996,889</b>	<b>1,000,441</b>	<b>941,480</b>
Intersystem sales	2,117	1,710	3,062	3,319	2,805
Sales for resale	477,790	138,456	160,056	85,580	84,592
<b>Total sales</b>	<b>991,904</b>	<b>1,096,865</b>	<b>1,160,007</b>	<b>1,089,340</b>	<b>1,028,877</b>
<b>Peak demand (MW)</b>	<b>142</b>	<b>160</b>	<b>162</b>	<b>166</b>	<b>161</b>
<b>Energy requirements (MWh)</b>					
Ponderay Newsprint Company	243,275	674,396	723,227	724,990	699,447
All other retail customers	270,839	284,013	276,724	278,770	244,838
<b>Total retail sales</b>	<b>514,114</b>	<b>958,409</b>	<b>999,951</b>	<b>1,003,760</b>	<b>944,285</b>
Sales for resale	477,790	138,456	160,056	85,580	84,592
<b>Total sales</b>	<b>991,904</b>	<b>1,096,865</b>	<b>1,160,007</b>	<b>1,089,340</b>	<b>1,028,877</b>
Electric System losses	17,842	26,583	23,710	16,708	30,545
<b>Total energy requirements</b>	<b>1,009,746</b>	<b>1,123,448</b>	<b>1,183,717</b>	<b>1,106,048</b>	<b>1,059,422</b>
<b>Energy resources (MWh)</b>					
Box Canyon Project	444,275	460,575	451,656	359,364	490,907
Boundary Project	340,151	369,066	368,974	366,350	368,828
Bonneville and other sources	225,320	293,807	363,087	380,334	199,687
<b>Total energy resources</b>	<b>1,009,746</b>	<b>1,123,448</b>	<b>1,183,717</b>	<b>1,106,048</b>	<b>1,059,422</b>

## Supplemental Information (Unaudited)

## Supplemental Information (Unaudited)

Public Utility District No. 1 of Pend Oreille County

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

	2020	2019	2018	2017	2016
Operating revenues (000s)					
Energy sales	\$ 42,347	\$ 53,323	\$ 51,786	\$ 47,648	\$ 45,742
Other	1,632	1,559	1,100	1,181	1,317
Total operating revenues	43,979	54,882	52,886	48,829	47,059
Operating expenses (1)					
Power costs	29,101	34,410	33,313	29,704	25,916
Operations and maintenance	6,862	6,231	6,511	6,701	5,782
Administrative and general	3,753	3,825	4,558	5,981	4,433
Taxes	1,787	2,785	2,721	2,482	2,525
Pension Expense	(770)	(727)	(975)	(603)	(691)
Total operating expenses	40,733	46,524	46,128	44,265	37,965
Investment income (2)	83	266	229	79	56
Net revenue available for debt service	3,329	8,624	6,987	4,643	9,150
Funds transferred to rate stabilization fund	-	(3,200)	(2,200)	(300)	(4,300)
Net revenue for debt service coverage	3,329	5,424	4,787	4,343	4,850
Senior lien debt service	976	1,178	2,053	2,062	2,057
Net revenue available for capital	\$ 2,353	\$ 4,246	\$ 2,734	\$ 2,281	\$ 2,793
Debt service coverage ratio (3)	3.41x	4.60x	2.33x	2.11x	2.36x

- (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.

## Supplemental Information (Unaudited)

Public Utility District No. 1 of Pend Oreille County

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

	2020	2019	2018	2017	2016
Operating revenues (000s)					
Energy sales					
Electric System	\$ 18,096	\$ 19,191	\$ 18,304	\$ 18,414	\$ 17,603
Tribal use of lands	230	230	230	230	232
All other (1)	7	7	6	5	36
Total operating revenues	18,333	19,428	18,540	18,649	17,871
Operating expenses (2)					
Power costs	217	176	114	231	126
Operations and maintenance	5,294	6,683	5,105	5,099	4,904
Administrative and general	2,602	2,458	2,937	2,364	2,190
Taxes	100	103	103	83	111
Pension Expense	(336)	(317)	(318)	(294)	(280)
Total operating expenses	7,877	9,103	7,941	7,483	7,051
Investment income	161	570	552	258	229
Other nonoperating (3)	628	687	1,610	1,939	1,986
Net revenue available for debt service (4)	11,245	11,582	12,761	13,363	13,035
Senior lien debt service (5)	10,320	9,398	9,916	10,942	10,993
Net revenue available for capital	\$ 925	\$ 2,184	\$ 2,845	\$ 2,421	\$ 2,042
Debt service coverage ratio (6)	1.09x	1.23x	1.29x	1.22x	1.19x

- (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, the 2018 bonds, and the 2019 bonds, as applicable.
- (6) Debt service coverage ratio on senior lien debt service.

## Supplemental Information (Unaudited)

Public Utility District No. 1 of Pend Oreille County

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

	2020	2019	2018	2017
Operating revenues (000s)				
Broadband Sales	2,431	2,194	2,059	\$ 1,957
Other	1,063	562	755	492
Total operating revenues	3,494	2,756	2,814	2,449
Operating expenses (1)				
Operations and maintenance	1,016	921	877	847
Administrative and general	315	243	186	189
Taxes	23	15	18	32
Pension Expense	(87)	(82)	11	(53)
Total operating expenses	1,267	1,097	1,092	1,015
Investment income (2)	3	9	5	-
Net revenue available for debt service	2,230	1,668	1,727	1,434
Senior lien debt service (3)	420	420	420	419
Net revenue available for capital	\$ 1,810	\$ 1,248	1,307	\$ 1,015
Debt service coverage ratio (4)	5.31x	3.97x	4.11x	3.42x

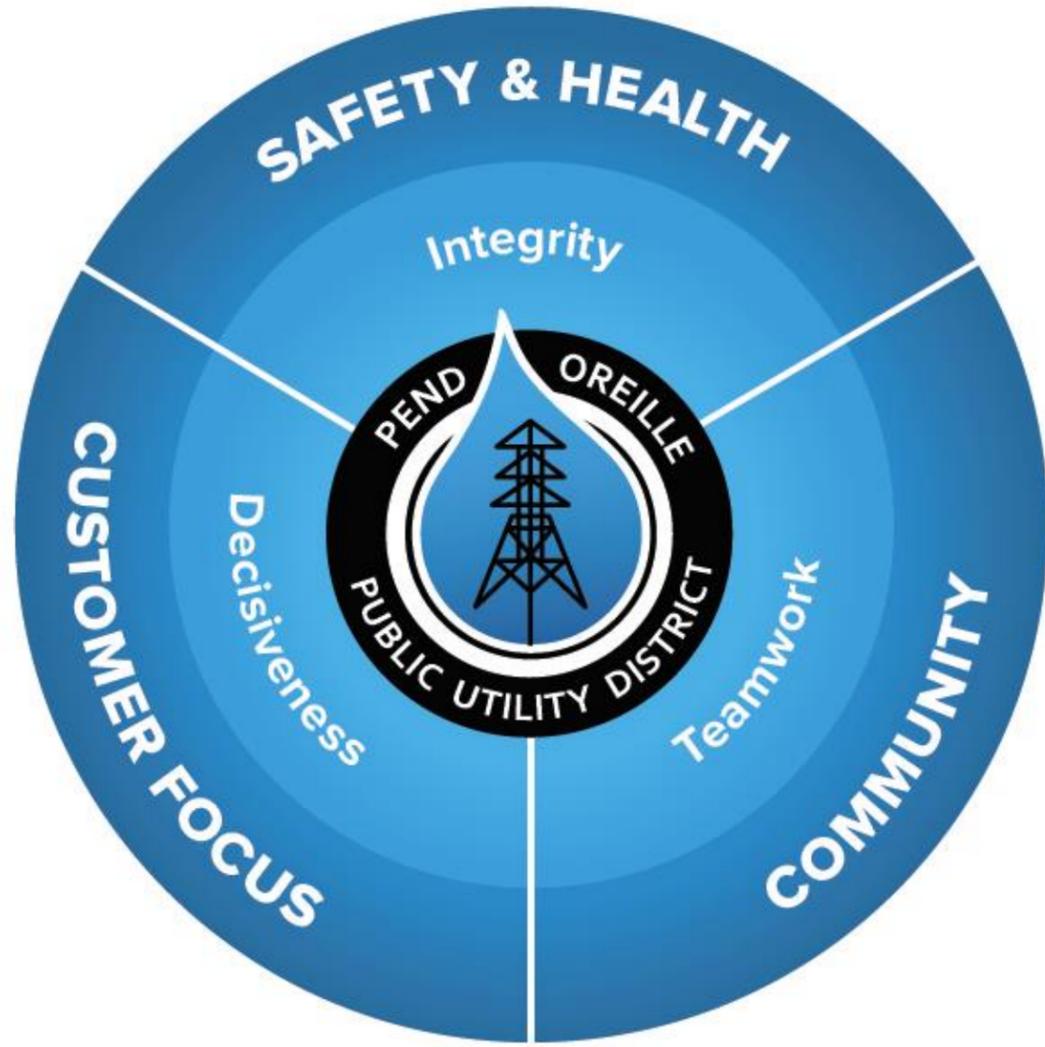
2017 was the first year of senior lien parity debt service coverage requirements.

- (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.
- (3) Senior lien debt service includes the 2017 bonds.
- (4) Debt service coverage ratio on senior lien debt service.

## 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, 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





# 2020

# ANNUAL REPORT

Quality Service at Low Cost