

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



2018

ANNUAL REPORT

CONT

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.”

Page 4-5
Opening Letter

Page 6
2018 Highlights

Page 7-9
Report of Independent Auditors

Page 10-19
Management’s Discussion and Analysis

Page 20-43
Financials

Page 44-49
Supplemental Information

Page 50
Organizational Information

VALUES

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.

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.

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.

Decisiveness

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

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. A General Manager and staff operate the utility within policies set by the Board of Commissioners. 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 systems, and the community network system provides wholesale broadband communication services.

IMPROVING THE QUALITY OF LIFE FOR GENERATIONS TO COME



F. Colin Willenbrock,
General Manager



Curtis J. Knapp,
President

A Message to Our Stakeholders

Public Utility District No. 1 of Pend Oreille County continues to “Improve the Quality of Life for Generations to Come” by providing competitively valued utility services to our rural communities. At a blended residential rate of seven cents per kilowatt-hour, the PUD has one of the lowest electric rates in the state and nation. That continues to be a significant point of pride as we navigate uncertainty in wholesale energy markets, rising fish and wildlife costs, growing regulatory requirements, and stagnant demand for power in the Pacific Northwest. The success is directly attributable to the PUD’s talented team and their steadfast commitment to finding safe and cost-effective solutions to the challenges of today for the benefit of all customers tomorrow. 2018 was another outstanding year with many major highlights.

Dispute Resolution

The PUD and its largest industrial customer, Ponderay Newsprint Company (PNC), successfully settled all litigation in February 2018. Under the settlement agreement, the parties reinstated the power sales contracts with certain key elements clarified. PNC’s potential liquidated damages (i.e. payment upon closure) are now set at a specified dollar amount—giving the PUD financial certainty and PNC a greater incentive to continue operating. The agreement also promotes continued collaboration between PNC and the PUD by providing PNC with limited energy cost reductions and the PUD with support for marketing its power resources. The resolution of these matters allowed PNC to focus on producing high quality newsprint and providing jobs to approximately 147 employees in the region.

The PUD and its turbine upgrade contractor, Andritz Hydro, also successfully settled all outstanding differences over the project in 2018. The resolution allowed the PUD to pay Andritz the remaining contract balance and officially conclude the project—avoiding almost \$13 million in disputed claims by Andritz. The PUD commissioned the fourth and final unit in January 2015 and completed some minor warranty work on one of the units in 2016. The final project closeout was all that remained to be resolved. Total plant upgrades, including the new turbines, step-up transformers, governors, plant wiring, cool water piping, and other components were funded with \$143.8 million in revenue bond issuances. The newly refurbished Box Canyon plant has a 50-year Federal Energy Regulatory Commission (FERC) License that runs until 2055.

Cost Reduction

The PUD and the Kalispel Tribe of Indians (Tribe), along with the prescribing agencies to the License, agreed to a proposed License amendment that establishes better conservation outcomes for the Lower Pend Oreille River basin and provides PUD cost savings of more than \$60 million over the license term. The amendment, once approved, would remove the obligation for the PUD to construct downstream fish passage at Box Canyon Dam, as well as both upstream and downstream fish passage at Calispell Creek Pumping Plant. In exchange, the PUD would provide annual funding to the Tribe to establish watershed and conservation programs. The PUD and members of a technical committee, which currently oversees implementation of the License requirements, will regularly monitor the programs.

The amendment would also resolve longstanding litigation over water quality issues in both the Pend Oreille River and Calispell Creek.

Refinancing

The PUD issued \$83,400,000 in Box Canyon Bonds on September 13. Of that total, \$32,000,000 went to refunding a short-term line of credit for the Upstream Fish Passage Project and the final payment for the Box Canyon Turbine Upgrade work. The remaining \$51,400,000 went to refinancing of existing bonds issued in 2009. Refinancing the 2009 bonds is projected to save the PUD an average of \$350,000 a year in interest payments over the life of the bonds.

Risk Mitigation

The PUD successfully deregistered as a Transmission Operator with the North American Electric Reliability Corporation (NERC) in order to better manage compliance risk in a cost-effective way. As part of the multi-year effort, the PUD contracted with the Bonneville Power Administration (BPA) to assume the responsibility of monitoring transmission operations of the PUD's 58 miles of interconnected transmission lines while still maintaining 24-hour onsite system operations. The change in functional registration greatly reduced operational risk and the administrative costs associated with comprehensive compliance audits. The frequency of NERC-required audits reduced from once every three years to once every six years—resulting in further savings.

As you can see, the PUD is extremely sensitive to decisions that affect its ratepayers. The accomplishments noted above demonstrate our focus on keeping power rates low through prudent financial practices, strong risk mitigation, attentive stewardship, and strategic partnerships. Thank you for your continued support and allowing us to be our customers' trusted utility partner.

Respectfully,



F. COLIN
WILLENBROCK
General Manager



CURTIS J. KNAPP
President of
the Board of
Commissioners



2018 HIGHLIGHTS

AVERAGE RETAIL CUSTOMERS

Electric customers
9,238

Fiber end-users
1,990

Wireless end-users
92

Water customers
596

Residential Electric Rate*

Service Availability Charge **\$30.50/mo.**
Energy Usage Charge **\$0.0511/kWh**
Average Residential Rate **\$0.0709/kWh**

Box Canyon Hydroelectric Project

90 MW nameplate capacity
4 Kaplan Generators
MWh Generated **451,656**
Mill Rate **\$40.53**

Sales Statistics

Electric (MWh) **996,889**
Peak Demand (MW) **162**
Water (Gallons) **31,339,836**

Calispell Power Plant

0.75 MW nameplate capacity
2 Generators
MWh Generated **2,909**
Mill Rate **\$20.21**

*as of 12/31/2018

Pend Oreille PUD District Commissioners

The PUD Board of Commissioners is comprised of three members, each serving six-year terms. Commissioners represent their respective districts and are responsible for making policy decisions for the utility.



Richard A. Larson, *District 3*



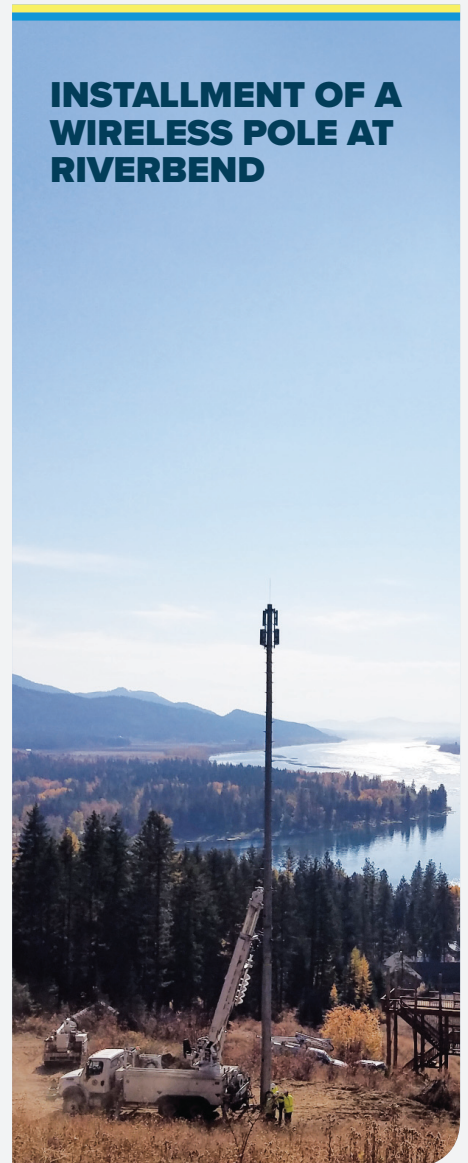
Curtis J. Knapp, *District 2*



Joseph B. Onley, *District 1*



INSTALLMENT OF A WIRELESS POLE AT RIVERBEND



Report of Independent Auditors
and Combined Financial Statements
with Supplemental Information

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

December 31, 2018 and 2017

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, 2018 and 2017, the individual statements of net position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2018, the related combined statements of revenues, expenses, and changes in net position and cash flows for the years ended December 31, 2018 and 2017, 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, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019, on our consideration of Public Utility District No. 1 of Pend Oreille County's Electric, Box Canyon Production, Water, and Community Network Systems' 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 29, 2019

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, 2018, 2017 and 2016. 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 supplemental 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 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 2018, the District's overall financial position improved. Total net position for the District increased \$4,741,624 from \$140,128,406 in 2017 to \$144,870,030 in 2018.

Financial Analysis

Combined Statements of Net Position

as of December 31	2018	2017	2016
Assets and Deferred Outflows of Resources			
Current assets	\$ 82,212,198	\$ 81,142,445	\$ 75,883,135
Other assets	10,071,334	10,805,932	11,451,190
Net utility plant	265,505,570	259,010,507	252,895,896
Total assets	357,789,102	350,958,884	340,230,221
Deferred outflows of resources	925,878	330,916	1,360,726
Total assets and deferred outflows of resources	\$ 358,714,980	\$ 351,289,800	\$ 341,590,947
Liabilities and Deferred Inflows of Resources			
Current liabilities	\$ 17,988,892	\$ 34,130,595	\$ 21,795,642
Other liabilities	31,718,123	39,485,494	42,792,159
Long-term debt	162,509,484	136,524,040	138,818,919
Total liabilities	212,216,499	210,140,129	203,406,720
Deferred inflows of resources	1,628,451	1,021,265	163,213
Total liabilities and deferred inflows of resources	\$ 213,844,950	\$ 211,161,394	\$ 203,569,933
Net position			
Net investment in capital assets	101,293,412	110,609,842	110,020,257
Restricted	25,064,143	23,926,125	23,339,136
Unrestricted	18,512,475	5,592,439	4,661,621
Total net position	\$ 144,870,030	\$ 140,128,406	\$ 138,021,014

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

	2018	2017	2016
Operating Revenues			
Sales to retail customers	\$ 49,533,086	\$ 47,937,251	\$ 46,284,112
Sales to other utilities	4,573,930	1,937,010	1,492,120
Other	1,446,271	1,178,107	1,285,771
Total operating revenues	\$ 55,553,287	\$ 51,052,368	\$ 49,062,003
Operating Expenses			
Power costs	\$ 14,892,569	\$ 11,290,848	\$ 8,207,308
Operations, maintenance, and administrative	18,806,516	19,899,129	17,042,550
Taxes and depreciation	13,142,372	12,673,044	12,846,974
Total operating expenses	\$ 46,841,457	\$ 43,863,021	\$ 38,096,832
Nonoperating Revenues (Expenses)			
Interest income	702,063	296,771	261,225
Interest expense	(4,382,065)	(4,972,167)	(5,574,638)
Other	(290,204)	(406,559)	(28,561)
Total nonoperating revenues (expenses)	\$ (3,970,206)	\$ (5,081,955)	\$ (5,341,974)
Change in Net Position	\$ 4,741,624	\$ 2,107,392	\$ 5,623,197

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

Electric System

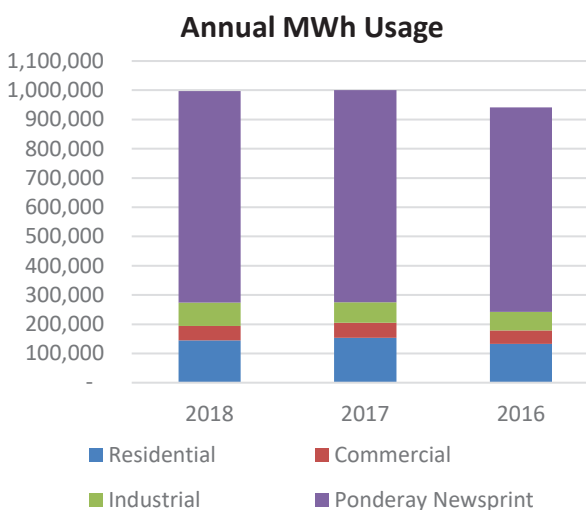
The District's electric system distributes electricity to approximately 9,200 meters, including 842 commercial customers and 9 industrial customers. The District generates power from District-owned Box Canyon Dam and Calispel Powerhouse, and purchases power from Bonneville Power Administration, Seattle City Light's Boundary Project, and power markets.

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

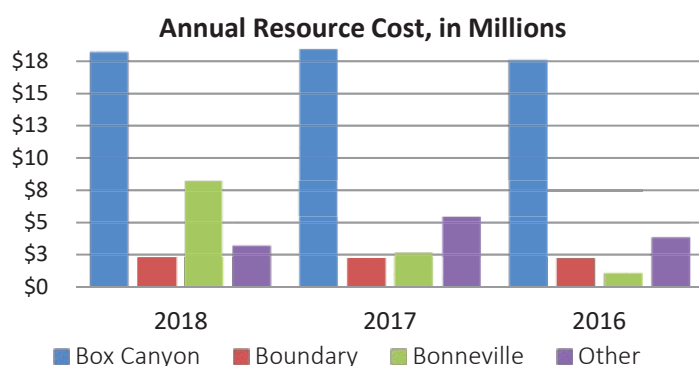
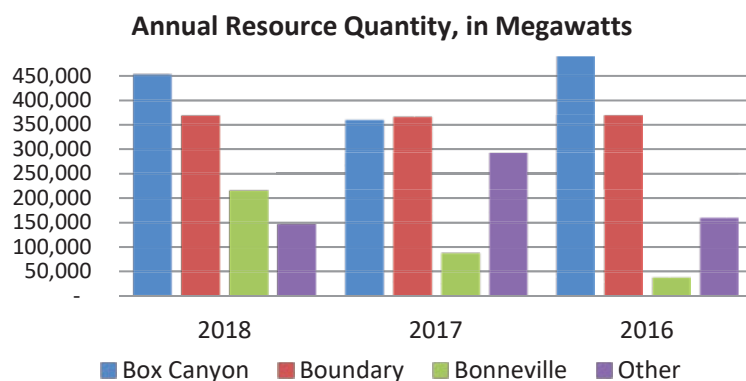
Electric System Selected Data	2018	2017	2016
Residential revenues	\$ 10,282,551	\$ 10,576,818	\$ 9,371,845
Commercial revenues	2,964,548	2,869,050	2,547,806
Industrial revenues	3,654,051	3,222,410	2,837,681
Ponderay Newsprint revenues	30,112,591	28,858,279	29,327,800
Residential customer growth	1.24%	0.97%	1.04%
Residential energy rate (cents per kWh)	5.11¢	5.11¢	5.08¢
Residential monthly system access charge	\$30.50	\$29.50	\$29.50
<u>Average Power Cost per Megawatt Hour:</u>			
Box Canyon	\$41	\$52	\$36
Boundary	\$6	\$6	\$6
Bonneville Power Administration	\$38	\$30	\$29
Market purchases and other	\$29	\$21	\$31

Factors influencing 2018 economic results:

- The District experienced a fairly average weather year. The District is a winter-peaking utility which reached a new peak in 2017 due to abnormally cold temperatures. 2016's weather was warmer than average.
- The District and Ponderay Newsprint Company were engaged in litigation surrounding a contract dispute in 2016 and 2017. The two parties settled the dispute in early 2018, ceasing all related litigation proceedings. Monthly billings under the contract with Ponderay Newsprint remained substantially unchanged through the contract dispute and subsequent settlement.



- Two new industrial class loads were energized during the year. The District's industrial class load, excluding Ponderay Newsprint Company, has remained virtually unchanged over the past several years. The new loads currently consume a combined average of 1.5 average megawatts per hour.
- Box Canyon generation levels for 2018 were near historical average at 51.56 megawatts per hour, after a low average in 2017 of 41.02 megawatts per hour due to low river levels. 2016 generation was 56.04 megawatts per hour.
- The District received, on average, approximately 42 megawatts of power per hour from the City of Seattle's Boundary Hydroelectric Project, under a contract that expires in 2055.
- The District has a power purchase contract with the Bonneville Power Administration (BPA) for Shaped Block purchases. These purchases are predetermined monthly levels of power delivered consistently



throughout the month. In 2015, the District requested a reduction in Shaped Block purchases based on historical reductions in Ponderay Newsprint Company's load. BPA approved the request, reducing the District's power purchases to an average of 4.5 megawatts through September 2017. Due to Ponderay Newsprint Company's return to full production, BPA returned to previous power purchase levels of approximately 25 average megawatts per hour beginning October 1, 2018.

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

Electric System Financial Data	2018	2017	2016
Total assets and deferred outflows of resources	\$ 110,382,740	\$ 110,791,651	\$ 111,706,773
Total liabilities and deferred inflows of resources	\$ 46,228,207	\$ 49,165,126	\$ 50,103,492
Net investment in capital assets	49,429,472	49,432,317	50,270,152
Restricted	10,872,942	8,488,872	8,078,070
Unrestricted	3,852,119	3,705,336	3,255,059
Total net position	\$ 64,154,533	\$ 61,626,525	\$ 61,603,281

Capital Assets	2018	2017	2016
Transmission and distribution	\$ 116,506,829	\$ 114,990,519	\$ 113,488,964
Hydroelectric plant and equipment	1,525,945	1,526,930	1,526,931
General plant	4,299,132	4,158,606	4,279,694
Total utility plant in service	122,331,906	120,676,055	119,295,589
Construction work in progress	2,280,046	1,620,362	1,417,067
Total gross utility plant	\$ 124,611,952	\$ 122,296,417	\$ 120,712,656
Long Term Debt			
	2018	2017	2016
Total debt outstanding as of December 31	\$ 12,555,512	\$ 13,967,174	\$ 15,328,960

The debt service coverage ratio measures cash flow from operations in comparison to annual debt service. The District's bond covenants include a debt service coverage ratio of 1.25, and the District has exceeded its bond covenants the last three years with ratios of 2.33, 2.11, and 2.36 for 2018, 2017, and 2016, respectively. In 2016, the District funded a rate stabilization account, the funds of which may be classified as revenue for debt service coverage purposes in the event that the District's net operating revenues are insufficient to meet that year's debt service coverage bond covenant. The funding for this account moves cash from unrestricted to restricted; there is no deferred revenue associated with this account and it is used only for the calculation of debt service coverage. The District transferred \$4.3 million into this account for the year ended December 31, 2016, \$300,000 for the year ended December 31, 2017 and \$2.2 million for the year ended December 31, 2018. Net revenues available for debt service in each year is reduced by the same amount.

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	2018	2017	2016
Total cost of production	\$ 18,533,686	\$ 18,643,961	\$ 17,834,725
Operating expenses	11,543,301	11,133,114	10,706,638
Annual generation in megawatt hours	451,656	359,364	490,907

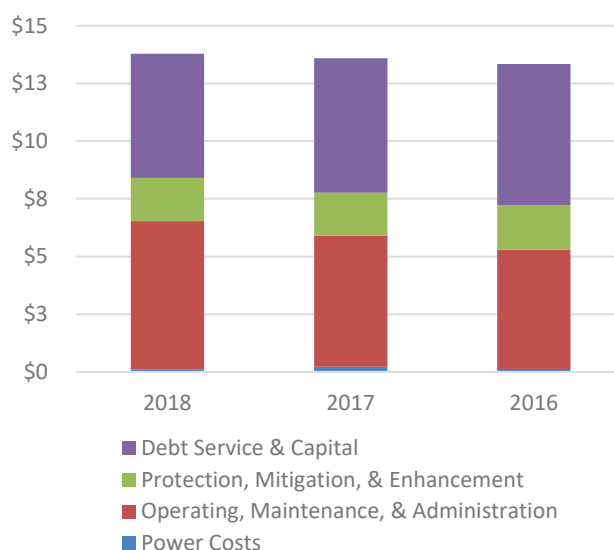
Factors influencing 2018 economic results:

- Local and regional snowpack, the length of the spring thaw, and summer heat all affect Pend Oreille River water levels and the amount of power that the Box Canyon Project can produce. The design and location of the Project necessitates the District to spill in high water conditions, which occurred in both 2018 and 2017. Summer heat in 2017 created abnormally low water conditions after the spring thaw, resulting in lower generation for the year. 2016 generation was slightly above the historical average.
- Operating expenses for the Box Canyon Production System include environmental work being performed as required by FERC licensing conditions (Protection, Mitigation, and Enhancement expenses). The type and expense of environmental work will vary from year to year and consists of cultural studies, historical

education, stream rehabilitation projects, recreation and wildlife projects, and water quality programs on the Pend Oreille River. Ponderay Newsprint Company contract parameters mitigate expenses and low water flows for Box Canyon.

- In May 2018, the District settled open litigation with the Box Canyon turbine upgrade contractor, completing the \$87 million contract. Litigation costs incurred for settlement are included in Operating, Maintenance & Administration expenses.
- Administrative costs for the Box Canyon Production System also include professional fees related to the issuance of revenue bonds in the amount of \$667,087. The District expensed these costs per Generally Accepted Accounting Principles (GAAP).

Box Canyon Production Costs in Millions



Box Canyon Production System Financial Data	2018	2017	2016
Total assets and deferred outflows of resources	\$ 217,543,406	\$ 207,834,732	\$ 199,139,044
Total liabilities and deferred inflows of resources	\$ 163,118,099	\$ 157,044,019	\$ 151,815,635
Net investment in capital assets	22,614,231	30,005,707	26,949,038
Restricted	14,041,201	15,437,253	15,261,066
Unrestricted	17,769,875	5,347,753	5,113,305
Total net position	\$ 54,425,307	\$ 50,790,713	\$ 47,323,409

Capital Assets:	2018	2017	2016
Hydroelectric plant and equipment	\$ 149,852,111	\$ 148,658,752	\$ 147,712,312
General plant	14,040,497	14,040,497	14,034,842
Total utility plant in service	\$ 163,892,608	\$ 162,699,249	\$ 161,747,154
Construction work in progress	\$ 44,674,005	\$ 32,694,750	\$ 19,856,663
Total gross utility plant	\$ 208,566,613	\$ 195,393,999	\$ 181,603,817

Long Term Debt	2018	2017	2016
Total debt outstanding as of December 31	\$ 152,483,990	\$ 134,745,223	\$ 128,373,816

The District issued revenue bonds during 2018 to pay for an upstream fish ladder required under the Box Canyon FERC license. Construction on the ladder began in 2016 and is expected to be completed during 2019. The District expended \$10.3 million on the \$36 million project during 2018.

As part of the bond issuance process, the District was re-evaluated by Moody's Investor Services and Fitch Ratings in the summer of 2018. Moody's upgraded the District from a negative to a stable outlook on their Baa2 rating, citing positivity in the settlement of litigation with Ponderay Newsprint Company and strong financial reserves and metrics. Fitch Ratings reaffirmed the District's rating of A- with a stable outlook, also citing the District's strong reserves and solid financial performance as strengths.

In September, the District sold \$83.4 million in 2018 Box Canyon Revenue bonds. \$32 million of these bonds were new money for the construction of the upstream fish ladder, and the remaining \$51.4 million represented a refinancing of the District's 2009 Box Canyon Revenue bonds. The net present value of the refunding was almost \$3.5 million, and the bonds were issued at a true interest cost of just over 4%.

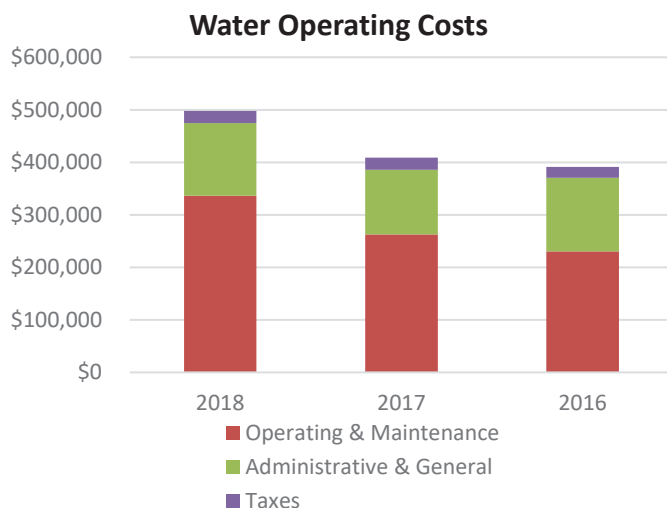
Water System

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	2018	2017	2016
Operating revenues	\$ 564,791	\$ 472,273	\$ 431,792
Operating expenses	859,771	600,106	594,137
<i><u>Water Usage by System, in gallons:</u></i>			
Metaline Falls	14,405,900	10,493,477	12,216,311
Sandy Shores	4,452,499	4,319,961	4,055,890
Riverbend	2,943,757	3,338,566	3,026,685
Greenridge	1,231,560	875,500	906,700
Riverview	2,673,043	1,799,345	1,437,809
Sunvale	2,814,910	3,752,980	2,495,390
Lazy Acres	1,236,880	1,241,190	933,290
Holiday Shores	817,477	882,213	698,950
Granite/Sacheen	763,810	652,130	694,580

Factors influencing 2018 economic results:

- Metaline Falls is the only District-owned system that serves an incorporated town. At 188 customers, it is the largest of the water systems that the District serves. The remaining systems serve small communities



primarily located on the Pend Oreille River, ranging from 82 to 29 customers.

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

Water System Financial Data	2018	2017	2016
Total assets and deferred outflows of resources	\$ 5,002,481	\$ 5,178,104	\$ 5,396,902
Total liabilities and deferred inflows of resources	\$ 403,007	\$ 281,514	\$ 368,984
Net investment in capital assets	4,807,232	4,973,039	5,142,695
Restricted	-	-	-
Unrestricted	(207,758)	(76,449)	(114,777)
Total net position	\$ 4,599,474	\$ 4,896,590	\$ 5,027,918
Capital Assets:	2018	2017	2016
Transmission and distribution	\$ 8,667,386	\$ 8,667,306	\$ 8,667,747
General plant	78,047	78,047	78,047
Total utility plant in service	8,745,433	8,745,353	8,745,794
Construction work in progress	962	-	-
Total gross utility plant	\$ 8,746,395	\$ 8,745,353	\$ 8,745,794
Long Term Debt	2018	2017	2016
Total debt outstanding as of December 31	\$ 97,620	\$ 135,191	\$ 172,781

The Metaline Falls and Riverview systems each began separate line extension projects that are expected to be completed in 2019.

The Riverbend, Sunvale, and Granite/Sacheen systems have low-interest loans with Washington State agencies. All water systems carry small inter-system balances with the Electric and Box Canyon Production Systems 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.

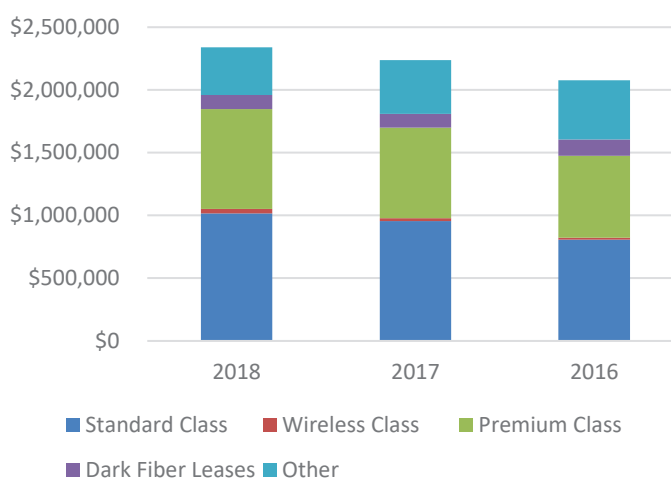
After receiving an American Recovery and Reinvestment Act grant in 2010, the District expanded its existing fiber backbone system with construction of fiber to individual homes and businesses in the southern part of Pend Oreille County. Per Washington State law, the District is authorized to be a wholesale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

Community Network System Selected Data	2018	2017	2016
Operating revenues	\$ 2,813,847	\$ 2,448,738	\$ 2,206,822
Operating expenses	3,738,908	3,575,314	3,554,419
Average fiber standard class end users	1,990	1,849	1,583
Average wireless class end users	92	56	33

Factors influencing 2018 economic results:

- The Community Network System continued to see substantial growth during 2018. Customers requesting service after grant funds were exhausted in 2013 pay the full cost of extending service. Contributions in aid of construction of \$431,731, \$155,121, and \$91,284 in 2018, 2017, and 2016, respectively, have offset costs of expanding the System.
- Expenses for the Community Network System have remained fairly constant over the past 3 years. At \$2.65 million in 2018, \$2.56 million in 2017, and \$2.52 million in 2016, depreciation is the largest component of operating expenses.
- The District has been increasing reserves for the system, adding approximately \$290,000 to cash reserves in 2018 and \$344,000 in 2017.

Community Network System Revenues



Community Network System Financial Data	2018	2017	2016
Total assets and deferred outflows of resources	\$ 29,927,375	\$ 31,943,402	\$ 33,811,570
Total liabilities and deferred inflows of resources	\$ 8,236,659	\$ 9,128,824	\$ 9,745,164
Net investment in capital assets	24,442,477	26,198,779	27,658,372
Restricted	150,000	-	-
Unrestricted	(2,901,761)	(3,384,201)	(3,591,966)
Total net position	\$ 21,690,716	\$ 22,814,578	\$ 24,066,406

Capital Assets:	2018	2017	2016
Transmission and distribution	\$ 44,094,069	\$ 43,714,195	\$ 43,303,739
General plant	61,721	61,721	61,721
Total utility plant in service	44,155,790	43,775,916	43,365,460
Construction work in progress	161,542	156,975	87,123
Total gross utility plant	\$ 44,317,332	\$ 43,932,891	\$ 43,452,583

Long Term Debt:	2018	2017	2016
Total debt outstanding as of December 31	\$ 3,891,854	\$ 4,429,125	\$ 4,807,335

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

Other Significant Matters

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

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

Contacting the District's Financial Management

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

April D. Owen, CPA

Chief Audit, Financial & Power Supply Officer/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	Water System	Community	Combined Total	
		Production System		Network System	as of December 31,	
					2018	2017
Current Assets						
Cash and cash equivalents	\$ 7,285,487	\$ 19,996,183	\$ -	\$ 425,505	\$ 27,707,175	\$ 24,495,465
Restricted cash and cash equivalents	20,288,591	6,318,379	-	208,491	26,815,461	25,489,685
Restricted short-term investments	12,129,189	10,277,213	-	-	22,406,402	23,861,301
Receivables						
Accounts and contracts, net	1,239,160	-	18,445	184,800	1,442,405	3,052,769
Other	180,254	1,682	29,634	33,729	245,299	463,464
Unbilled revenue	883,802	-	-	-	883,802	955,673
Materials and supplies	1,583,941	232	44,060	756,599	2,384,832	2,436,925
Prepaid expenses and other	269,650	57,172	-	-	326,822	387,163
Due from other systems	76,661	214,328	-	-	-	-
Total current assets	43,936,735	36,865,189	92,139	1,609,124	82,212,198	81,142,445
Noncurrent Assets						
Contracts and notes receivable	3,280,840	-	-	-	-	-
Nonutility plant	5,089,521	-	-	-	5,089,521	5,261,298
Licensing costs - regulatory asset	-	4,981,813	-	-	4,981,813	5,544,634
Long-term intersystem investment	-	569,193	-	-	-	-
Total noncurrent assets	8,370,361	5,551,006	-	-	10,071,334	10,805,932
Utility Plant						
Land and land rights	3,434,602	789,950	77,305	61,721	4,363,578	4,363,578
Hydroelectric plant and equipment	1,525,945	149,852,111	-	-	151,378,056	150,185,682
Structures, buildings and equipment	116,506,829	-	8,667,386	44,094,069	169,268,284	167,372,020
Intangible assets	864,530	13,250,547	742	-	14,115,819	13,975,293
Construction work in progress	2,280,046	44,674,005	962	161,542	47,116,555	34,472,087
	124,611,952	208,566,613	8,746,395	44,317,332	386,242,292	370,368,660
Less accumulated depreciation and amortization	66,621,400	34,265,091	3,841,543	16,008,688	120,736,722	111,358,153
Net utility plant	57,990,552	174,301,522	4,904,852	28,308,644	265,505,570	259,010,507
Total assets	110,297,648	216,717,717	4,996,991	29,917,768	357,789,102	350,958,884
Deferred Outflows of Resources						
Deferred amount on refinancing debt	-	788,633	-	-	788,633	2,056
Deferred pension outflows	85,092	37,056	5,490	9,607	137,245	328,860
Total deferred outflows of resources	85,092	825,689	5,490	9,607	925,878	330,916
Total assets and deferred outflows of resources	\$ 110,382,740	\$ 217,543,406	\$ 5,002,481	\$ 29,927,375	\$ 358,714,980	\$ 351,289,800

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,	
					2018	2017
Current Liabilities						
Accounts payable	\$ 3,343,485	\$ 110,369	\$ -	\$ -	\$ 3,453,854	\$ 9,701,572
Accrued compensation and benefits	1,688,994	-	-	-	1,688,994	1,815,773
Accrued taxes	990,680	96,652	1,873	5,637	1,094,842	1,027,393
Customer prepayments and deposits	2,438,201	-	3,154	83,214	2,524,569	1,154,546
Accrued bond interest	311,625	2,546,325	484	58,491	2,916,925	3,988,935
Short-term note payable	-	-	-	-	-	10,136,909
Current portion of long-term debt	1,443,333	3,855,714	37,591	520,328	5,642,638	5,519,639
Current portion of licensing cost liability and unearned revenue	-	617,482	-	49,588	667,070	785,828
Due to other systems	-	-	63,328	13,333	-	-
Total current liabilities	10,216,318	7,226,542	106,430	730,591	17,988,892	34,130,595
Other Liabilities						
Unearned revenue	11,140,808	-	-	3,733,915	11,673,883	11,736,518
Licensing costs liability	-	4,981,813	-	-	4,981,813	5,544,634
Contract security liability	10,092,405	684,767	-	-	10,777,172	15,994,769
Net pension liability	2,656,858	1,157,019	171,410	299,968	4,285,255	6,209,573
Total other liabilities	23,890,071	6,823,599	171,410	4,033,883	31,718,123	39,485,494
Long-term Debt						
Revenue bonds	11,032,179	148,628,276	-	3,278,193	162,369,455	136,333,108
Other long-term debt	80,000	-	60,029	-	140,029	190,932
Due to other systems	-	-	-	80,000	-	-
Total long-term debt	11,112,179	148,628,276	60,029	3,358,193	162,509,484	136,524,040
Total liabilities	45,218,568	162,678,417	337,869	8,122,667	212,216,499	210,140,129
Deferred Inflows of Resources						
Deferred pension inflows	1,009,639	439,682	65,138	113,992	1,628,451	1,021,265
Total deferred inflows of resources	1,009,639	439,682	65,138	113,992	1,628,451	1,021,265
Net Position						
Net investment in capital assets	49,429,472	22,614,231	4,807,232	24,442,477	101,293,412	110,609,842
Restricted for						
Sullivan contract obligation	606,158	-	-	-	606,158	518,341
Debt service	3,466,784	14,041,201	-	150,000	17,657,985	18,807,784
Rate stabilization fund	6,800,000	-	-	-	6,800,000	4,600,000
Total restricted	10,872,942	14,041,201	-	150,000	25,064,143	23,926,125
Unrestricted	3,852,119	17,769,875	(207,758)	(2,901,761)	18,512,475	5,592,439
Total net position	64,154,533	54,425,307	4,599,474	21,690,716	144,870,030	140,128,406
Total liabilities, deferred inflows of resources, and net position	\$ 110,382,740	\$ 217,543,406	\$ 5,002,481	\$ 29,927,375	\$ 358,714,980	\$ 351,289,800

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	Box Canyon	Water	Community	Combined Total	
	System	Production System	System	Network System	December 31, 2018	2017
Operating Revenues						
Sales to retail customers						
Ponderay Newsprint Company	\$ 30,112,591	\$ -	\$ -	\$ -	\$ 30,112,591	\$ 28,858,279
Other retail customers	16,901,150	-	460,471	2,058,874	19,420,495	19,078,972
Sales to other utilities	4,573,930	-	-	-	4,573,930	1,937,010
Intersystem sales	198,281	18,533,686	-	282,024	-	-
Contributed capital	571,653	-	7,070	431,731	1,010,454	756,616
Other	527,973	6,000	97,250	41,218	435,817	421,491
Total operating revenues	52,885,578	18,539,686	564,791	2,813,847	55,553,287	51,052,368
Operating Expenses						
Power costs	33,312,608	113,647	-	-	14,892,569	11,290,848
Operations and maintenance	6,511,238	5,104,770	336,499	876,513	12,401,854	12,497,665
Administrative and general	4,558,083	2,937,419	138,115	186,325	7,530,179	8,367,948
Taxes	2,721,177	102,604	23,369	17,821	2,864,971	2,619,075
Pension expense (credit)	(975,487)	(318,001)	157,368	10,603	(1,125,517)	(966,484)
Depreciation and amortization	3,822,473	3,602,862	204,420	2,647,646	10,277,401	10,053,969
Total operating expenses	49,950,092	11,543,301	859,771	3,738,908	46,841,457	43,863,021
Net operating revenues (expenses)	2,935,486	6,996,385	(294,980)	(925,061)	8,711,830	7,189,347
Nonoperating Revenues (Expenses)						
Interest income	228,538	552,434	1,764	4,802	702,063	296,771
Interest on debt	(596,977)	(6,631,261)	(2,578)	(203,322)	(7,350,708)	(7,836,443)
Subsidies on debt	-	1,609,575	-	-	1,609,575	1,939,311
AFUDC interest	-	1,359,068	-	-	1,359,068	924,965
Sullivan net expense	(39,350)	-	-	-	(39,350)	(126,824)
Other, net	311	(251,607)	(1,322)	(281)	(250,854)	(279,735)
Total nonoperating expenses	(407,478)	(3,361,791)	(2,136)	(198,801)	(3,970,206)	(5,081,955)
Change in net position	2,528,008	3,634,594	(297,116)	(1,123,862)	4,741,624	2,107,392
Accumulated Net Position						
Beginning of year	61,626,525	50,790,713	4,896,590	22,814,578	140,128,406	138,021,014
End of year	\$ 64,154,533	\$ 54,425,307	\$ 4,599,474	\$ 21,690,716	\$ 144,870,030	\$ 140,128,406

See accompanying notes.

Combined Statements of Cash Flows

Public Utility District No. 1 of Pend Oreille County

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total December 31,	
					2018	2017
Combined Statements of Cash Flows						
Cash Flows from Operating Activities						
Receipts from customers	\$ 50,906,602	\$ -	\$ 469,517	\$ 2,355,341	\$ 53,731,460	\$ 48,063,835
Receipts from other operating revenues	4,782,836	6,000	85,251	-	4,874,087	2,215,157
Payments to suppliers for goods and services	(22,204,179)	(4,057,428)	(193,245)	(159,510)	(26,614,362)	(20,774,719)
Payments to employees for services	(7,880,375)	(4,113,615)	(352,624)	(738,762)	(13,085,376)	(12,046,299)
Payments to (from) other systems	(18,332,449)	18,145,113	32,064	155,272	-	-
Net cash from operating activities	7,272,435	9,980,070	40,963	1,612,341	18,905,809	17,457,974
Cash Flows from Noncapital Financing Activities						
Nonoperating asset receipts from revenues	119,380	-	-	-	119,380	22,648
Intersystem financing	157,952	-	442	(158,394)	-	-
Net cash from noncapital financing activities	277,332	-	442	(158,394)	119,380	22,648
Cash Flows From Capital and Related Financing Activities						
Acquisition and construction of capital assets	(3,335,172)	(21,081,002)	(1,042)	(385,735)	(24,802,951)	(16,017,678)
Proceeds from sale of assets	30,607	-	-	-	30,607	406,163
Proceeds from issuance of revenue bond	-	90,303,080	-	-	90,303,080	3,500,000
Proceeds from issuance of note payable	-	8,507,056	-	-	8,507,056	10,136,909
Change of deferred revenue	-	-	-	(49,588)	(49,588)	(49,588)
Payments on revenue bonds	(1,370,000)	(63,080,969)	-	(523,938)	(64,450,969)	(5,005,714)
Interest paid on revenue bonds	(657,500)	(7,797,705)	-	(209,491)	(8,455,205)	(7,948,103)
Subsidy received on revenue bonds	-	1,609,574	-	-	1,609,574	1,939,311
Scheduled payments on notes payable	(13,333)	(18,643,965)	(37,571)	-	(18,694,869)	(50,924)
Interest paid on notes payable	-	(251,607)	(2,792)	-	(254,399)	(73,369)
Net cash from capital and related financing activities	(5,345,398)	(10,435,538)	(41,405)	(1,168,752)	(16,257,664)	(13,162,993)
Cash Flows from Investing Activities						
Purchases of investments	(1,269,801)	(6,425,960)	-	-	(7,695,761)	(14,114,169)
Sales and maturities of investments	1,233,548	8,303,509	-	-	9,013,118	3,845,299
Gain on sale of investments	36,253	-	-	-	36,253	-
Interest on investments, contracts, and notes	192,447	428,592	-	4,802	416,350	194,188
Net cash from investing activities	192,447	2,306,141	-	4,802	1,769,960	(10,074,682)
Net Change in Cash and Cash Equivalents	2,396,816	1,850,673	-	289,997	4,537,485	(5,757,053)
Cash and Cash Equivalents						
Beginning of year	25,177,262	24,463,889	-	343,999	49,985,150	55,742,203
End of year	\$ 27,574,078	\$ 26,314,562	\$ -	\$ 633,996	\$ 54,522,635	\$ 49,985,150

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 December 31,	
					2018	2017
Net operating revenues (expenses)	\$ 2,935,486	\$ 6,996,385	\$ (294,980)	\$ (925,061)	\$ 8,711,830	\$ 7,189,347
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities:						
Depreciation and amortization	3,822,473	3,602,862	204,420	2,647,646	10,277,401	10,053,969
Changes in operating assets and liabilities						
Receivables	1,674,729	-	(28,896)	(18,417)	1,627,416	(1,147,458)
Unbilled revenue	71,871	-	-	-	71,871	78,263
Due to (from) other systems	(46,984)	-	46,984	-	-	-
Materials and supplies	69,732	44,049	1,032	54,203	169,016	414,500
Prepaid expenses and other current assets	80,614	(20,505)	-	-	60,109	69,943
Deferred relicensing costs	-	(118,758)	-	-	(118,758)	(327,421)
Pension	(725,287)	(541,709)	113,544	27,935	(1,125,517)	(966,484)
Accounts payable, customer deposits, and prepayments	(533,171)	(2,003)	(1,163)	(171,892)	(708,229)	2,153,163
Accrued compensation, benefits, and taxes	(77,028)	19,749	22	(2,073)	(59,330)	(59,848)
Net cash from operating activities	\$ 7,272,435	\$ 9,980,070	\$ 40,963	\$ 1,612,341	\$ 18,905,809	\$ 17,457,974

See accompanying notes.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Note 1 - Organization and Significant Accounting Policies

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

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

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

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

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

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 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, 2018 and 2017 was \$21,000 for each year.

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

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

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

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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

Utility plant - Utility plant assets are stated at cost, including an allowance for funds used during construction (AFUDC). 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 \$582,663 and \$632,251 as of December 31, 2018 and 2017, respectively. Also, the Community Network System unearned revenue includes an Electric System \$4.25 million prepayment for future broadband services. Funds from the Electric System were used by the Community Network System as the matching cash requirement of an American Recovery and Reinvestment Act grant. The unamortized balance associated with this payment was \$3,200,840 and \$3,345,620 as of December 31, 2018 and 2017, 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, 2018 and 2017 was \$11,140,808 and \$11,153,855, respectively.

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

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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

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

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

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

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

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

Note 2 - Cash and Investments

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

As of December 31, 2018, the District held the following cash and investments:

Type	Box Canyon				Community		Combined Total	
	Electric System	Production System	Water System		Network System		as of December 31,	
							2018	2017
Cash deposits	\$ 15,827,112	\$ 7,493,684	\$ -		\$ 633,996		\$ 23,954,792	\$ 18,315,309
Local government investment pool	11,746,966	18,820,878	-		-		30,567,844	31,669,841
U.S. Treasuries, at market	12,129,189	10,277,213	-		-		22,406,402	23,861,301
Total Cash and Investments	\$ 39,703,267	\$ 36,591,775	\$ -		\$ 633,996		\$ 76,929,038	\$ 73,846,451

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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, 2018 2017	
Unrestricted cash & cash equivalents						
Revenue funds	\$ 7,285,487	\$ 19,996,183	\$ -	\$ 425,505	\$ 27,707,175	\$ 24,495,465
Restricted cash & cash equivalents						
Bond principal and interest	1,741,625	6,310,313	-	208,491	8,260,429	9,217,489
Construction and acquisition	-	8,066	-	-	8,066	-
Contract obligation	11,746,966	-	-	-	11,746,966	11,672,196
Rate stabilization	6,800,000	-	-	-	6,800,000	4,600,000
Subtotal	\$ 20,288,591	\$ 6,318,379	\$ -	\$ 208,491	\$ 26,815,461	\$ 25,489,685
Restricted short-term investments						
Bond reserve	2,036,784	10,277,213	-	-	12,313,997	13,746,532
Contract security	10,092,405	-	-	-	10,092,405	10,114,769
Subtotal	\$ 12,129,189	\$ 10,277,213	\$ -	\$ -	\$ 22,406,402	\$ 23,861,301
Total Funds	\$ 39,703,267	\$ 36,591,775	\$ -	\$ 633,996	\$ 76,929,038	\$ 73,846,451

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 2018 and 2017, 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.

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 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of \$10 million are available on a one-day notice. 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.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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 2010 Electric System reserve account requires a deposit equal to 125% of the average annual debt service outstanding on each respective bond. The reserve requirement for all Box Canyon Bonds is the sum of the reserve requirement for each series, currently equal to the maximum annual debt service. All deposits are currently held in federal treasuries and money market cash accounts.

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

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

Contract security - As discussed in Note 5, the Ponderay Newsprint Company has elected to post a \$10 million contract security in lieu of a letter of credit. The contract security is subject to contractual provisions and the District's investment policy and, as of December 31, 2018 and 2017, was invested in a bank trust department deposit subject to PDPC protection.

Rate stabilization - The District's bond resolutions allow for the creation of a rate stabilization account within the District's revenue funds to affect the calculation of the District's bond debt service coverage covenant requirement. Monies deposited into the account are subtracted from net revenues used in the calculation of debt service coverage in the year deposited, and are added to net revenues in years that money is withdrawn from the account. The District deposited \$2,200,000 and \$300,000 into the rate stabilization account for the years ended December 31, 2018 and 2017, respectively.

Investments - The District holds investments that are measured at fair value as of December 31, 2018 and 2017. 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.

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

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

	Total as of December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Money market funds	\$ 9,924,991	\$ -	\$ 9,924,991	\$ -
U.S. agency securities				
U.S. government and agency obligations	9,943,350	-	9,943,350	-
Federal National Mortgage Association	1,992,820	-	1,992,820	-
Federal Home Loan Banks	2,000,140	-	2,000,140	-
Total	\$ 23,861,301	\$ -	\$ 23,861,301	\$ -

Note 3 - Utility Plant

The following changes occurred in the District's utility plant for the years ended December 31, 2018 and 2017:

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

	2016 Balance	Additions	Retirements/ Transfers	2017 Balance
Land and land rights	\$ 4,503,220	\$ 1	\$ (139,643)	\$ 4,363,578
Hydroelectric plant and equipment	149,239,243	174,672	771,767	150,185,682
Structures, buildings, and equipment	165,460,450	571,295	1,340,275	167,372,020
Intangible assets	13,951,084	24,209	-	13,975,293
Construction work in progress	21,360,853	16,140,962	(3,029,728)	34,472,087
	354,514,850	16,911,139	(1,057,329)	370,368,660
Less accumulated depreciation and amortization	101,618,954	10,053,969	(314,770)	111,358,153
Net Utility Plant	\$ 252,895,896	\$ 6,857,170	\$ (742,559)	\$ 259,010,507

The District capitalized to utility plant, as an intangible asset, costs associated with seeking the current Box Canyon Project FERC license, including legal fees for continuing litigation of various license conditions. The District is amortizing the balance of the intangible asset over the remaining term of the license, which expires in 2055. Originally capitalized relicensing costs were \$12,472,232, with accumulated amortization of \$3,271,272 and \$3,019,765 as of December 31, 2018 and 2017, respectively.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Note 4 - Long-Term Debt

During the year ended December 31, 2018 the following changes occurred in long-term debt:

Electric System

Issue	Balance Dec 31, 2017	Additions	Reductions	Balance Dec 31, 2018	Amounts due within one year
2010 Revenue and Refunding Bonds	\$ 13,835,000	\$ -	\$ 1,370,000	\$ 12,465,000	\$ 1,430,000
Due in annual installments through January 1, 2031; interest at 4.00% - 5.00%.					
Subtotal	\$ 13,835,000	\$ -	\$ 1,370,000	\$ 12,465,000	\$ 1,430,000
Unamortized Premiums	25,508	-	28,329	(2,821)	-
Other long-term debt	106,666	-	13,333	93,333	13,333
Total Debt:	\$ 13,967,174	\$ -	\$ 1,398,329	\$ 12,555,512	\$ 1,443,333

Box Canyon Production System

Issue	Balance Dec 31, 2017	Additions	Reductions	Balance Dec 31, 2018	Amounts due within one year
2008 Clean Renewable Energy Tax Credit Bond (CREB)	\$ 382,857	\$ -	\$ 95,714	\$ 287,143	\$ 95,714
Due in annual installments through December 2021; interest at 1.35%.					
2009 Revenue Bonds	61,465,000	-	59,860,000	1,605,000	1,605,000
Refinanced through 2018 Revenue and Refunding Bonds. Final principal payment of \$1,605,000 due January 1, 2019.					
2010 Revenue Bonds	34,110,000	-	-	34,110,000	-
Due in annual installments through January 1, 2041; interest at 5.25% - 5.75%.					
2012 Clean Renewable Energy Bonds	28,940,000	-	2,155,000	26,785,000	2,155,000
Due in annual installments through January 1, 2030; interest at 0.834% - 4.571% and subject to subsidy payment.					
2018 Revenue and Refunding Bonds	-	83,400,000	-	83,400,000	-
Due in annual installments through 2048; interest at 5%.					
Subtotal	\$ 124,897,857	\$ 83,400,000	\$ 62,110,714	\$ 146,187,143	\$ 3,855,714
Unamortized bond premiums	212,976	6,775,684	212,976	6,775,684	-
Unamortized bond discount	(502,519)	-	(23,682)	(478,837)	-
2016 Bond Anticipation Note	10,136,909	8,507,056	18,643,965	-	-
Total Debt:	\$ 134,745,223	\$ 98,682,740	\$ 80,943,973	\$ 152,483,990	\$ 3,855,714

In December 2016, the District issued a Box Canyon Production System Revenue Bond Anticipation Note with a bank in an amount not to exceed \$20,000,000. In October 2017, the District extended the maturity date from December 13, 2017 to September 30, 2018. Similar to a line of credit, draws were made on the note for expenditures related to upstream fish passage work at Box Canyon Hydroelectric Project. Interest accrued at 65% of LIBOR plus 1.35% and was payable monthly. As of December 31, 2017 draws on the Bond Anticipation Note were \$10,136,909, and an additional \$8,507,056 was drawn on the Note during 2018. The note was repaid in full with proceeds of the issuance of the 2018 Revenue and Refunding Bonds.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

In October 2018, the District issued Box Canyon Production System Revenue and Refunding Bonds in the amount of \$83,400,000. Proceeds from the bonds were used to repay the 2016 Revenue Bond Anticipation Note, provide funds for additional fish passage project construction costs and refund the 2009 Box Canyon Production System Revenue Bonds. The District recorded a deferred amount on refinancing of \$810,757, and is amortizing the balance using the effective interest method over the remaining life of the bonds. The refunding resulted in a net present value savings of \$3,472,379.

Water System

Issue	Balance Dec 31, 2017	Additions	Reductions	Balance Dec 31, 2018	Amounts due within one year
Sunvale Water System	\$ 29,938	\$ -	\$ 9,979	\$ 19,959	\$ 9,979
Department of Community, Trade and Economic Development Loan					
Due in annual installments through October 2020; interest at 2.5%.					
Riverbend Water System	66,055		22,019	44,036	22,019
Department of Community, Trade and Economic Development Loan					
Due in annual installments through October 2020; interest at 2.5%.					
Granite Shores Water System	39,198		5,573	33,625	5,593
Public Works Board Loans					
Due in annual installments through October 2026; interest at 1%.					
Total Debt:	\$ 135,191	\$ -	\$ 37,571	\$ 97,620	\$ 37,591

Community Network System

Issue	Balance Dec 31, 2017	Additions	Reductions	Balance Dec 31, 2018	Amounts due within one year
2017 Revenue Bonds	\$ 3,333,000	\$ -	\$ 318,000	\$ 3,015,000	\$ 306,000
Due in semi-annual installments through January 1, 2027; interest at 3.88%.					
2013 Revenue Bonds	989,459	-	205,938	783,521	214,328
Due in monthly installments through January 1, 2027; interest at the LGIP rate.					
Subtotal	\$ 4,322,459	\$ -	\$ 523,938	\$ 3,798,521	\$ 520,328
Due to other systems	106,666	-	13,333	93,333	13,333
Total Debt:	\$ 4,429,125	\$ -	\$ 537,271	\$ 3,891,854	\$ 533,661

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
2019	\$ 587,500	\$ 1,443,333	\$ 2,030,833	\$ 6,026,522	\$ 3,855,714	\$ 9,882,236
2020	534,375	708,333	1,242,708	7,043,686	3,800,714	10,844,400
2021	498,750	743,333	1,242,083	6,888,835	3,890,715	10,779,550
2022	461,375	778,334	1,239,709	6,724,107	3,890,000	10,614,107
2023-2027	1,679,500	4,470,000	6,149,500	30,787,328	21,415,000	52,202,328
2028-2032	454,875	4,415,000	4,869,875	25,097,914	24,460,000	49,557,914
2033-2037	-	-	-	18,392,887	29,350,000	47,742,887
2038-2042	-	-	-	10,068,299	31,980,000	42,048,299
2043-2048	-	-	-	4,288,250	23,545,000	27,833,250

	Community Network System			Water System		
	Interest	Principal	Total	Interest	Principal	Total
2019	\$ 218,722	\$ 520,328	\$ 739,050	\$ 1,936	\$ 37,591	\$ 39,527
2020	201,275	540,060	741,335	1,080	37,591	38,671
2021	183,160	564,148	747,308	224	5,593	5,817
2022	113,901	456,985	570,886	168	5,595	5,763
2023-2027	170,836	1,717,000	1,887,836	225	11,250	11,475

Note 5 - Power Purchase Contractual Agreements

Ponderay Newsprint Company - In July 1986, the Electric System entered into power sales contracts with Ponderay Newsprint Company (PNC) to supply power to a fiber mill and paper plant. The District is obligated to provide all power necessary to operate both the fiber mill and paper plant. Power delivery under these contracts expires in 2027. In 2018, approximately 72% of Electric System retail energy deliveries and 58% of retail energy sale revenues were to PNC.

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

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

In December 2015, the District gave notice to PNC that it had breached its contractual obligations by submitting an improper power schedule. PNC disagreed, eventually filing suit against the District. Legal proceedings related to the dispute were ongoing through 2017, and were settled in February 2018, ceasing all current PNC related litigation.

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

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Seattle City Light - Boundary Hydroelectric Project - Seattle City Light owns and operates Boundary Hydroelectric Project (Boundary) located in northern Pend Oreille County. In Boundary's previous FERC license, the District was granted a licensed share of the Boundary Project equal to a 48-megawatt capacity. The Boundary Project was issued a new 42-year FERC license on March 20, 2013, in which the District was no longer granted a license share. During 2014, Seattle City Light and the District entered into a new agreement that extends the same operational parameters held under the previous license, including power deliveries capped at a 48-megawatt capacity and delivered at cost. The agreement term corresponds with Boundary's FERC license and expires in 2055.

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

The amount of power received varies from month to month, depending on the projected load levels and District power resources for each month. BPA currently delivers all power allocation through Shaped Block purchases, at an annual average of 25 megawatts. Future power allocations are dependent on the District's overall customer load. The risks and rewards associated with BPA purchases pass through to Ponderay Newsprint Company under the terms of the contracts with that customer.

Energy Northwest - The District is a participant in Energy Northwest's (formerly the Washington Public Power Supply System) Nuclear Project Nos. 1 and 3, both of which have terminated. The District purchased from Energy Northwest, and assigned to BPA, 0.087% of the capability of Project No. 1 and 0.078% of Energy Northwest's 70% ownership share of Project No. 3. Under the agreements, the District is unconditionally obligated to pay Energy Northwest its pro rata share of the total costs of the projects, including debt service, even though the projects are terminated. Under the Net Billing Agreements, BPA is responsible for assuming the District's cost obligation, and therefore the District had no direct payments in 2018 and 2017. 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 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 of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Benefits provided

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

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

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

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

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

Contributions

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

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

Required contribution rates (expressed as a percentage of covered payroll) at the close of fiscal year 2018 were as follows:

Actual Contribution Rates	Employer	Employee
PERS Plan 1	12.70%	6.00%
PERS Plan 2/3	12.70%	7.38%
PERS Plan 3	12.70%	0%

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Both the District and the employees made the required contributions during fiscal years 2018 and 2017. The District's required employer contributions for the years ended December 31 were as follows:

Required Employer Contributions	2018	2017
PERS Plan 1	\$ 434,106	\$ 416,156
PERS Plan 2/3	643,488	579,483
Total	\$ 1,077,594	\$ 995,639

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

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

For the fiscal year ended June 30, 2018, the annual money-weighted rate of return on PERS Plan 1 pension investments, net of pension plan investment expense, was 9.55%. This money-weighted rate of return expresses investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows. The annual money-weighted rate of return on PERS Plan 2/3 pension investments, net of pension plan investment expense, was 9.56%.

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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018. 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, 2017, through June 30, 2018, 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, 2018	0.064363%	0.082627%
Percent share as of June 30, 2017	0.067391%	0.086683%
Net pension liability as of December 31, 2018	\$2,874,473	\$1,410,782
Pension expense (credit) recognized as of December 31, 2018	(\$332,275)	(\$793,242)

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

At December 31, 2018, 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	\$ -	\$ -	\$ 172,925	\$ (247,002)
Changes in actuarial assumptions	-	-	16,504	(401,498)
Difference between projected and actual investment earnings	-	(114,230)	-	(865,721)
Changes in proportion	-	-	(589,580)	-
Contributions paid to PERS subsequent to the measurement date	217,078	-	320,318	-
Difference between actual and proportionate employer contributions	-	-	-	-
Total	\$ 217,078	\$ (114,230)	\$ (79,833)	\$ (1,514,221)

The \$217,078 reported as deferred outflows of resources for PERS Plan 1 and \$320,318 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to each plan will be recognized in pension expense as follows:

Deferred Outflows and Inflows of Resources Recognized in Pension Expense	PERS Plan 1	PERS Plan 2/3
2019	\$ 4,998	\$ (286,037)
2020	(24,971)	(408,815)
2021	(74,932)	(618,201)
2022	(19,325)	(284,526)
2023	-	(160,930)
2024 and Thereafter	-	(155,863)
Total	\$ (114,230)	\$ (1,914,372)

Actuarial assumptions - The total pension liability for each of the plans was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to June 30, 2018, 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%

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Mortality rates were based on RP-2000 report's "Combined Healthy Table" and "Combined Disabled Table", which the Society of Actuaries published. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetimes.

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

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

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

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

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20.00%	1.70%
Tangible Assets	7.00%	4.90%
Real Estate	18.00%	5.80%
Global Equity	32.00%	6.30%
Private Equity	23.00%	9.30%

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

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

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

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

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	\$ 3,532,548	\$ 2,874,473	\$ 2,304,448
Proportionate share of the PERS Plan 2/3 net pension liability (asset)	\$ 6,452,952	\$ 1,410,782	\$ (2,723,234)

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, 2018, is as follows:

Proportionate Share of Plan Net Pension Liability	PERS Plan 1	PERS Plan 2/3	Total
Electric System	\$ 1,782,173	\$ 874,685	\$ 2,656,858
Box Canyon Production System	776,108	380,911	1,157,019
Water System	114,979	56,431	171,410
Community Network System	201,213	98,755	299,968
Total	\$ 2,874,473	\$ 1,410,782	\$ 4,285,255

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 2018 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.

Savings plans - In addition to PERS, the District maintains a deferred compensation plan, as well as two defined contribution plans, in accordance with the Internal Revenue Code Sections 457 and 401(a), respectively. All District employees are eligible to participate in the 457 plan and one of the two available 401(a) plans. The 401(a) plans provide for an employer match of 50% of eligible employee deferral of employee straight-time wages, capped at a 2% employer match on a 4% employee deferral.

Employer contributions for 2018 and 2017 were \$141,547 and \$145,899, respectively. All plan assets have been placed into trust for the exclusive benefit of plan participants and their beneficiaries and are, therefore, not reflected in the combined statements of net position.

The District maintains a Health Reimbursement Arrangement for employees. Non-bargaining-unit employees receive a \$175 monthly contribution paid into individual employer-sponsored medical savings accounts to pay for eligible medical expenses, tax-free, whether incurred while employed or after retirement. Bargaining unit employees are eligible for a \$150 monthly contribution if they participate in District-sponsored wellness programs.

Other post-employment benefits - The District has provided limited reimbursement for health care insurance premiums for retired employees. Employees age 50 or older that retired or voluntarily separated service were eligible to receive a contribution to the employee's Health Reimbursement Arrangement account. Employees that separated service during 2017 received \$2 times their years of service times the number of remaining months between the employee's 60th and 65th birthdays. Employees that separated service during 2018 received \$1 times

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

their years of service, with the subsidy expiring January 1, 2019. The estimated liability for this benefit as of December 31, 2018 and 2017 was \$0 and \$5,953, respectively. The District elected to finance this plan under a pay-as-you-go method, disbursing \$8,554 and \$2,941 for the years ended December 31, 2018 and 2017, respectively. There is no past service cost to be realized in future years.

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 17 public utility districts and one non-profit mutual corporation. The program provides members with various liability, property, and health insurance coverages in three separate pools. The pools operate independently of one another. All members do not participate in all pools.

The District is a participant in the liability pool, which maintains a base self-insured retention level of \$1 million, funded reserves ranging from \$2.75 million to \$3.35 million, and individual member deductibles of \$250. The liability pool provides the District with shared excess coverage of \$60 million general liability, \$10 million cyber security liability coverage, and \$35 million directors and officers liability.

The District is also a participant in the property pool, which maintains a self-insured retention level of \$250,000, funded reserves ranging from \$500,000 to \$750,000, and varying deductibles of \$250 on most property and \$75,000 on the Box Canyon and Calispell Hydroelectric Projects. 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.

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

Insurance Assessments	Liability		Property	
	2018	2017	2018	2017
Electric System	\$ 147,127	\$ 162,361	\$ 34,544	\$ 38,201
Box Canyon Production System	61,436	68,118	143,680	160,149
Water System	4,387	8,576	2,755	2,825
Community Network System	13,664	14,165	590	522
Total	\$ 226,614	\$ 253,220	\$ 181,569	\$ 201,697

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 license - The Federal Energy Regulatory Commission 50-year license for the District's Box Canyon Project expires on July 1, 2055. The license contains several conditions, including environmental studies and projects initiated by state and federal agencies and the Kalispel Tribe of Indians. All projects and studies are related to Box Canyon Dam and its reservoir and include the protection, mitigation, and enhancement of fish, wildlife, recreation,

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

erosion, and cultural preservation. Capitalized projects have included upgrade of the Box Canyon Project turbines, spillway gate modification for total dissolved gas abatement, and construction of fish passage facilities currently in process. District-directed projects that are noncapital in nature, which are expensed as incurred, include improvement of wildlife and fish habitat, water quality monitoring, erosion mitigation, and environmental studies. The license also requires payments to agencies that are used at the discretion of the receiving party, and are intended primarily for recreation and erosion, although the District has no control over the final disposition of the funds. These costs have been estimated over the life of the license and recorded as a regulatory asset and licensing costs liability (Note 1).

The District is currently constructing an upstream fish passage facility at Box Canyon. The anticipated cost of the project is approximately \$36 million, of which the District has expended \$10.3 million and \$12.5 million during 2018 and 2017, respectively. Work on the upstream fish passage facility has extended beyond the contracted substantial completion date of October 31, 2018, and the District has withheld \$684,767 in contractual liquidated damages as of December 31, 2018.

The District opened a line-of-credit with a financial institution during 2016, and extended it in 2017 to expire in September 2018, to complete the fish passage project as well as make final payment to the District's turbine upgrade contractor (Note 4).

The 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 2018 and 2017, the Kalispel Tribe chose to have the District purchase the power at generation cost. Power sales on the Kalispel Tribe's behalf totaled \$229,935 and \$229,964 in 2018 and 2017, respectively.

Sullivan Creek Project - The Electric System's Sullivan Creek Project consists of two dams, 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 with several agencies, including United States Forest Service (USFS), Department of Ecology, Washington State Department of Fish and Wildlife, United States Fish and Wildlife, several other organizations, and local citizens. The resultant settlement agreement outlines continued operation of the Sullivan Dam as a water storage facility. The agreement also outlines various environmental projects to protect and enhance fish and wildlife habitat. Through an Interlocal Agreement between Seattle City Light and the District, Seattle City Light agreed to pay the full cost to remove the Mill Pond Dam and perform other restoration and environmental work as part of the relicensing conditions for Boundary Dam. Seattle City Light also agreed to pay half of the cost of construction of a cold water pipe, which drafts cooler water from the bottom of Sullivan Lake in an effort to lower the water temperature of an outlet creek. Once the terms and conditions of the negotiated agreement and FERC Surrender Order are met and approved by FERC, which is expected in 2020, 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 applied to the Department of Ecology to sell certain Sullivan-related water rights to the state of Washington through the Department of Ecology Office of Columbia River, Columbia River Water Management Program. In exchange for the release of water from Sullivan Lake at designated times and amounts over the expected USFS permit 30-year life, the Department of Ecology Office of Columbia River agreed to fund the District \$14 million.

Proceeds are expected to finance Sullivan Creek Project capital and operating, maintenance, and environmental expenditures for the entirety of a USFS 30-year license term to be issued after decommissioning of the project is fully complete. The proceeds are recorded as unearned revenue and being amortized annually in an amount equal to the net cash outflow for Sullivan Project-related activities each year. The monies are restricted to use for Sullivan

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

Creek Project-related expenditures and reflected on the statement of net position within the contract security liability category.

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

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

NoaNet - The District guaranteed certain NoaNet debt obligations and participates in assessments (Note 9).

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 - Broadband Services

Community Network System - The District owns a fiber optic backbone extending from Spokane north past Metaline Falls and includes fiber into all District substations. The District built this system primarily for Electric System operation and control, but allowed others to use the system and thereby help local businesses, as well as develop revenues to offset infrastructure costs.

With the acceptance of a federal grant, the District expanded its broadband services to the residents of Pend Oreille County, changing the scope of the utility services offered by the Community Network System. The Community Network System operates in accordance with state wholesale laws, which authorize the District to build infrastructure and enable open-access use of that infrastructure to internet service providers and entities authorized to provide retail telecommunications services within the state of Washington, who may then, in turn, provide retail services to customers.

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

In December 2014, NoaNet established a \$13 million variable rate, junior lien, nonrevolving line of credit and transferred the balances of two previous lines of credit to the new note. The line was refinanced in March 2017 with a \$10.2 million term loan. The balance on the loan as of December 31, 2018 was \$7,917,799.

NoaNet opened a \$5 million line of credit to fund capital expenditures in April 2017. In October 2018, NoaNet converted the \$5 million line of credit into a \$3 million term loan and a \$2 million line of credit. As of December 31, 2018, the term loan had a balance of \$2,950,000, and the line of credit had a balance of \$600,000.

Notes to Combined Financial Statements

Public Utility District No. 1 of Pend Oreille County

In 2017, NoaNet reported a net operating loss of \$8,776,409, \$575,428 of nonoperating expense, and a total decrease in net position of \$9,351,837.

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.

Supplemental Information (Unaudited)

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
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
2018	33.54%	16.46%	63.22%	95.77%
2017	37.63%	35.44%	61.24%	90.97%
2016	44.89%	53.93%	57.03%	85.82%
2015	45.62%	40.24%	59.10%	89.20%
2014	45.71%	23.62%		

Schedule of Employer Contributions as of December 31

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

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

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

	2018	2017	2016	2015	2014
Average number of customers					
Residential	8,307	8,205	8,126	8,042	7,957
Commercial	842	842	843	842	841
Industrial	9	8	8	8	8
Other	80	80	79	77	77
Total	9,238	9,135	9,056	8,969	8,883
Revenues from sale of energy (000s)					
Residential	\$ 10,283	\$ 10,577	\$ 9,372	\$ 8,899	\$ 8,963
Commercial	2,935	2,836	2,507	2,401	2,391
Industrial	33,767	32,081	32,165	26,500	28,541
Other	30	34	40	40	39
Total District customers	47,015	45,527	44,085	37,840	39,934
Intersystem sales	198	185	164	132	140
Sales for resale	4,574	1,937	1,492	5,790	6,057
Total energy sales	51,787	47,648	45,741	43,762	46,131
Other operating revenues	1,099	1,181	1,317	739	825
Total	\$ 52,886	\$ 48,829	\$ 47,059	\$ 44,501	\$ 46,956
Energy (MWh)					
Residential	145,100	153,606	132,802	133,059	143,037
Commercial	49,370	51,337	45,462	44,696	46,806
Industrial	802,274	795,231	762,914	643,009	719,194
Other	145	267	302	291	299
Total District customers	996,889	1,000,441	941,480	821,055	909,336
Intersystem sales	3,062	3,319	2,805	2,867	3,229
Sales for resale	160,056	85,580	84,592	282,410	202,618
Total sales	1,160,007	1,089,341	1,028,877	1,106,332	1,115,183
Peak demand (MW)	162	166	161	145	162
Energy requirements (MWh)					
Ponderay Newsprint Company	723,227	724,990	699,447	580,993	675,145
All other retail customers	276,724	278,771	244,838	242,929	237,420
Total retail sales	999,951	1,003,761	944,285	823,922	912,565
Sales for resale	160,056	85,580	84,592	282,410	202,618
Total sales	1,160,007	1,089,341	1,028,877	1,106,332	1,115,183
Electric System losses	23,710	16,707	30,545	19,760	16,345
Total energy requirements	1,183,717	1,106,048	1,059,422	1,126,093	1,131,528
Energy resources (MWh)					
Box Canyon Project	451,656	359,364	490,907	505,850	462,530
Boundary Project	368,974	366,350	368,828	366,005	366,993
Bonneville and other sources	363,087	380,334	199,687	254,237	302,005
Total energy resources	1,183,717	1,106,048	1,059,422	1,126,093	1,131,528

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,

	2018	2017	2016	2015	2014
Operating revenues (000s)					
Energy sales	\$ 51,786	\$ 47,648	\$ 45,742	\$ 43,762	\$ 46,131
Other	1,100	1,181	1,317	739	825
Total operating revenues	52,886	48,829	47,059	44,501	46,956
Operating expenses (1)					
Power costs	33,313	29,704	25,916	28,121	30,090
Operations and maintenance	6,511	6,701	5,782	6,191	6,433
Administrative and general	4,558	5,981	4,433	3,586	3,385
Taxes	2,721	2,482	2,525	2,157	2,190
Pension Expense	(975)	(603)	(691)	477	(193)
Total operating expenses	46,128	44,265	37,965	40,532	41,905
Investment income (2)	229	79	56	-	18
Net revenue available for debt service	6,987	4,644	9,150	3,969	5,069
Funds transferred to rate stabilization fund	(2,200)	(300)	(4,300)	-	-
Net revenue for debt service coverage	4,787	4,344	4,850	3,969	5,069
Senior lien debt service	2,053	2,062	2,057	3,005	3,011
Net revenue available for capital	\$ 2,734	\$ 2,282	\$ 2,793	\$ 964	\$ 2,058
Debt service coverage ratio (3)	2.33x	2.11x	2.36x	1.32x	1.68x

(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,

	2018	2017	2016	2015	2014
Operating revenues (000s)					
Energy sales					
Electric System	\$ 18,304	\$ 18,414	\$ 17,603	\$ 16,669	\$ 16,993
Tribal use of lands	230	230	232	219	215
All other (1)	6	5	36	15	138
Total operating revenues	18,540	18,649	17,871	16,903	17,346
Operating expenses (2)					
Power costs	114	231	126	114	717
Operations and maintenance	5,105	5,099	4,904	4,643	4,582
Administrative and general	2,937	2,364	2,190	2,454	2,510
Taxes	103	83	111	114	105
Pension Expense	(318)	(294)	(280)	200	(81)
Total operating expenses	7,941	7,483	7,051	7,525	7,833
Investment income	552	258	229	10	59
Other nonoperating (3)	1,610	1,939	1,986	2,021	2,045
Net revenue available for debt service (4)	12,761	13,363	13,035	11,409	11,617
Senior lien debt service (5)	9,916	10,942	10,993	11,037	11,069
Net revenue available for capital	\$ 2,845	\$ 2,421	\$ 2,042	\$ 373	\$ 547
Debt service coverage ratio (6)	1.29x	1.22x	1.19x	1.03x	1.05x

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

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

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

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

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

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

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,

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

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

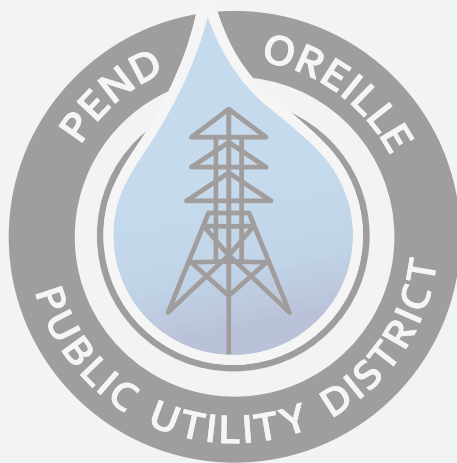
(1) Total operating expenses exclude depreciation for purposes of determining parity debt service coverage ratios.

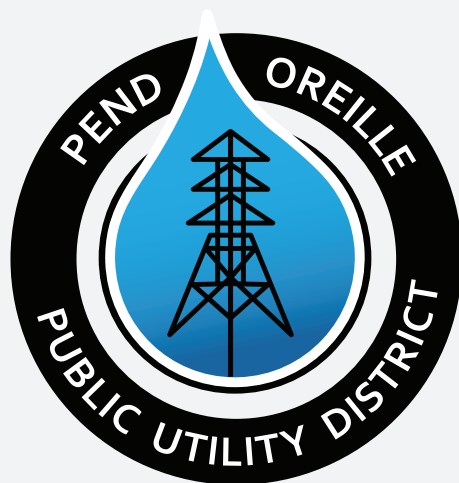
(2) Investment income varies depending on many factors, including unrealized gains and losses on long-term investments.

Organizational Information

Public Utility District No. 1 of Pend Oreille County

Date of organization	November 1936
Nature of business	A municipal corporation supplying public utility services in Pend Oreille County, Washington
Board of Commissioners	
President	Curt J. Knapp
Vice President	Richard A. Larson
Secretary	Joseph B. Onley
Key District Management	
General Manager	F. Colin Willenbrock
Chief Safety, Operations & Administrative Services Officer	Lloyd B. Clark
Chief Compliance, Engineering & Technology Officer	Kevin J. Conway
Chief Audit, Financial & Power Supply Officer/Auditor	April D. Owen
Chief Legal, Generation & Regulatory/Government Affairs Officer	Tyler R. Whitney
Chief Treasury, Broadband & Strategic Planning Officer/Treasurer	Sarah L. Holderman
Chief Customer Service & Metering Officer	Elizabeth M. Bartel
Director, Operations and Line Superintendent	Christopher W. Jones
Director, Engineering	Amber E. Orr
Director, Power Production	Mark D. Cleveland
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





2018

ANNUAL REPORT

Quality Service at Low Cost