



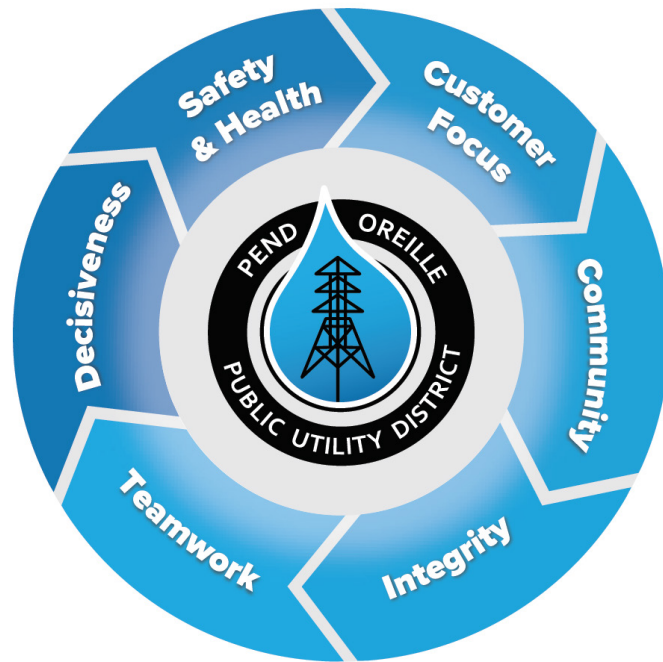
2022



# Annual Report

## Public Utility District No.1 of Pend Oreille County

*Our Strategic Plan guides everything we do for our customers & community.*



## Our Mission

Quality Service at Low Cost

## Vision

"To be valued as a trusted and respected Public Utility District providing services our rural communities need."

## Core Values

### Safety and Health

Share a commitment to protecting the safety and health of our employees, customers, and contractors in order to ensure a reliable workforce.

### Customer Focus

Respect our customers, listen to their requests and understand their needs. Strive to exceed expectations with regard to reliable service and affordable cost.

### Community

Help and improve the communities where we live and work through collaboration and volunteering.

### Teamwork

Value diversity and work together to unite the District and its departments to better serve the community.

### Integrity

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

### Decisiveness

Make timely choices and necessary changes based on the best interests of the District and its customers.



## What's Inside

Page 4-5	Message to Stakeholders
Page 6-7	Highlights of 2022
Page 8-9	Report of Independent Auditors
Page 10-19	Management's Discussion and Analysis
Page 20-45	Combined Financial Statements
Page 46-47	Required Supplementary Information
Page 48-51	Supplemental Information
Page 52	Organizational Information

# A message to our stakeholders, a new era in an ever-changing landscape.

2022 launched a new era for Pend Oreille Public Utility District (the "District"), building on foundational shifts in the generation, revenue, and operations environment. Over the last several years, District staff successfully navigated several substantial projects, and now look ahead to continue to improve customer information and services in an ever-changing utility landscape.

## Box Canyon Hydroelectric Project

After more than a decade of turbine upgrades and the upstream fish ladder construction at Box Canyon Dam, major project work is complete for our District-owned hydroelectric project. The District issued over \$150 million in bonds to upgrade all four turbines, modify the spillway gates, upgrade the Box Canyon substation, and construct an upstream fish ladder.

An off-license agreement with the Kalispel Tribe of Indians successfully mitigated all other major construction projects outlined in the Box Canyon license, creating a stable price model for Box Canyon for the next several decades.

*"An off-license agreement with the Kalispel Tribe of Indians successfully mitigated all other major construction projects outlined in the Box Canyon license, creating a stable price model for Box Canyon for the next several decades."*

This year marked the second year of a five-year agreement with Shell Energy North America ("Shell") for the District's hydroelectric resources. The agreement provides for the sale of 100% of Box Canyon Dam output and contractual assignment energy that is received from Seattle City Light's Boundary Dam. Shell supplies the power necessary to meet the District's remaining load and makes fixed payments to the District over the term of the agreement, providing financial predictability over the next several years.

In late 2022, the District entered into a long-term power sales agreement with Clark Public Utilities that is effective upon expiration of the Shell agreement. This agreement continues to provide a stable, long-term customer for the District. Clark PUD will purchase all power generated by the Box Canyon Dam, assuming both water risk and market price risk. The agreement gives the District and its ratepayers full recovery of projected Box Canyon costs, plus additional value for the environmental attributes, and allows for rate stability for District customers.

*"Clark PUD will purchase all power generated by the Box Canyon Dam, assuming both water risk and market price risk."*

## Cascade Digital Mining

In 2020, the District's single largest customer, Ponderay Newsprint Company ("PNC"), entered into bankruptcy. Allrise Capital purchased the former PNC property in the spring of 2021 and began crypto mining operations later that year.

In August 2022, the District signed a 13-month energy sales agreement with Allrise Capital's subsidiary, Cascade Digital Mining ("Cascade"), for the purchase of up to 100 megawatts (MW) of hourly power each month from a mix of District resources and market purchases. Cascade's energy usage averaged 68 MW by December 2022, approximately three times the average usage of the rest of the County

*"Cascade's energy usage averaged 68 MW by December 2022, approximately three times the average usage of the rest of the County combined."*

combined. The District worked to mitigate risk in the agreement through monthly prepayment requirements and collateralization through a letter of credit.

## Customer Growth and Usage

Energy sales to the District's customers other than Cascade were \$2 million higher in 2022 compared to 2021 due to a combination of customer

*"Energy sales to the District's customers other than Cascade were \$2 million higher in 2022 compared to 2021 due to a combination of customer growth and higher average consumption."*

growth and higher average consumption. Below-average temperatures during November and December contributed to record electric usage. The District added over 100 electric residential customers and 143 broadband customers during the year, representing growth of 1.3% for the Electric System and 5.7% for the Community Network System.

## Farewell to Former General Manager Colin Willenbrock

In early 2023, Colin Willenbrock resigned as General Manager from the District after 9 years of service. During his tenure at the District, Colin managed the completion of the multi-million-dollar Box Canyon plant modernization project, led

the transition following the closure of PNC, and finalized negotiations of Box Canyon's 2005 FERC License Amendment. He was instrumental in forging strong partnerships with critical stakeholders such as the Kalispel Tribe of Indians and Seattle City Light.

We thank Colin for his tireless efforts guiding the District in its mission to provide quality service at low cost to our customers, and through his many achievements, leaving the District stronger and ready to serve the residents of Pend Oreille County for years to come.



Curt Knapp  
Board of Commissioners,  
President



April Owen  
Co-Interim General  
Manager



Sarah Holderman  
Co-Interim General  
Manager



# HIGHLIGHTS OF 2022

## Electric System

Electric Customers **9,896**      Electric Sales MWh **484,199**      New Service Requests **180**

Average Residential Rate Comparison in Cents per kWh



## CN System

Fiber End-Users **2,617**  
Wireless End-Users **123**  
New Service Requests **144**

## Water System

Water Customers **603**      Water Divisions **9**      Water Usage in Gallons **29,995,322**

## Box Canyon Hydroelectric Project

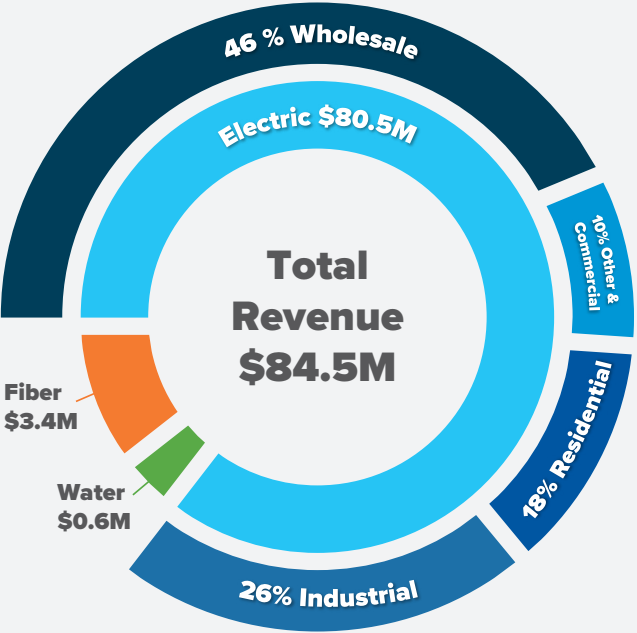
MWh Generated **450,197**      Mill Rate **\$38.35**



## About the Pend Oreille PUD

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

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



## Customers Enrolled in Programs

SmartHub Accounts **6,002**      Budget Billing **1,066**  
Paperless Billing **2,626**      AutoPay **3,277**  
Operation Round Up **423**

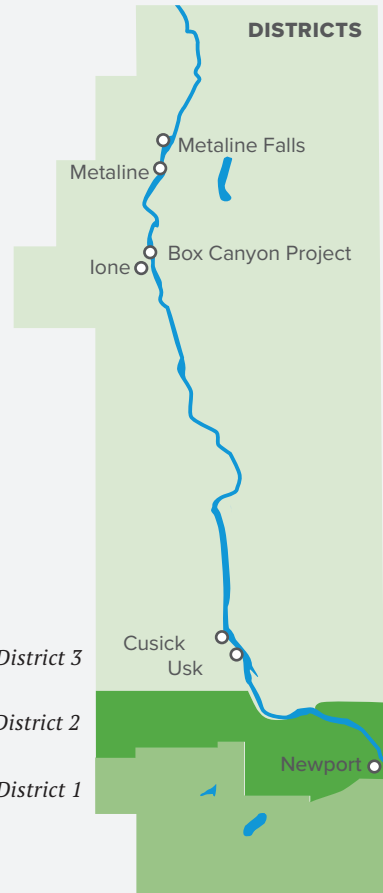


## Assistance Funds Awarded

Neighbors in Need **\$22,948**  
ARPA Grants **\$50,724**  
Low-Income Senior Discount **\$2,395**

These assistance programs help families experiencing financial hardship with their utility bills. The Neighbors in Need campaign funds are raised through donation, while the the ARPA Grant Funds were received from Pend Oreille County and helped customers financially impacted by the pandemic. The Low-Income Senior Discount is a fund established by the District. In total, 283 customers were helped through assistance funding.

## Board of Commissioners



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



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



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

## Commissioner David W. Rick

The PUD is governed by three locally elected commissioners who serve six-year staggered terms. At the close of 2022, Commissioner Ric Larson officially retired after serving two terms (Jan 2011 to Dec 2022). On January 1, 2023, the PUD welcomed a new commissioner to the PUD, Commissioner Dave Rick. Commissioner Rick, a twenty-seven-year resident of Pend Oreille County, is a retired Chief Hydroelectric Operator with twenty-six years of service at Seattle City Light's Boundary Project. He represents District 3, serving the North County.



## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the accompanying financial statements of Public Utility District No. 1 of Pend Oreille County, Washington (the District), which comprise the District's combined statements of net position as of December 31, 2022 and 2021, the individual statements of net position of the Electric, Box Canyon Production, Water, and Community Network Systems as of December 31, 2022, the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years ended December 31, 2022 and 2021, 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, 2022, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2022 and 2021, and the individual financial positions of the Electric, Box Canyon Production, Water, and Community Network Systems for the year ended December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### 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 (asset), and schedule of employer contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

#### Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole that collectively comprise the District's basic financial statements. 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 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 April 14, 2023, on our consideration of Public Utility District No. 1 of Pend Oreille County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Everett, Washington  
April 14, 2023

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, 2022, 2021 and 2020. This discussion and analysis is designed to be used in conjunction with the financial statements and notes, which follow this section.

Profile

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

Overview of the Financial Statements

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

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

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

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

The combined statements of revenues, expenses, and changes in net position report revenues and expenses, as well as change in net position for the 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.

Financial Analysis

During 2022, the District’s overall financial position improved. Total net position for the District increased \$9,916,943 from \$157,613,770 in 2021 to \$167,530,713 in 2022.

Combined Statements of Net Position				
as of December 31				
	2022	2021	2020	
Assets and Deferred Outflows of Resources				
Current assets	\$ 96,575,890	\$ 90,995,559	\$ 84,371,624	
Other assets	44,880,945	45,238,592	8,865,688	
Net utility plant	241,708,309	245,343,030	254,179,828	
Total assets	383,165,144	381,577,181	347,417,140	
Deferred outflows of resources	3,111,089	1,414,949	1,546,467	
Total assets and deferred outflows of resources	\$ 386,276,233	\$ 382,992,130	\$ 348,963,607	
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 23,540,285	\$ 22,793,778	\$ 20,382,311	
Other liabilities	52,893,500	50,007,223	26,392,026	
Long-term debt	139,871,613	145,684,419	151,075,847	
Total liabilities	216,305,398	218,485,420	197,850,184	
Deferred inflows of resources	2,440,122	6,892,940	793,325	
Total liabilities and deferred inflows of resources	\$ 218,745,520	\$ 225,378,360	\$ 198,643,509	
Net position				
Net investment in capital assets	\$ 100,702,789	\$ 99,554,876	\$ 104,118,796	
Restricted	28,658,281	26,688,842	26,224,501	
Unrestricted	38,169,643	31,370,052	19,976,801	
Total net position	\$ 167,530,713	\$ 157,613,770	\$ 150,320,098	

Combined Statements of Revenues, Expenses, and Changes in Net Position				
for the Year Ended December 31				
	2022	2021	2020	
Operating Revenues				
Sales to retail customers	\$ 44,152,938	\$ 25,414,409	\$ 33,618,010	
Sales to other utilities	37,006,292	30,177,934	11,645,161	
Other	2,451,864	1,860,350	1,607,248	
Total operating revenues	\$ 83,611,094	\$ 57,452,693	\$ 46,870,419	
Operating Expenses				
Power costs	\$ 36,088,935	\$ 17,919,969	\$ 10,992,112	
Operations, maintenance, and administrative	19,267,058	15,714,760	17,954,465	
Taxes and depreciation	13,842,316	11,727,772	11,906,491	
Total operating expenses	\$ 69,198,309	\$ 45,362,501	\$ 40,853,068	
Nonoperating Revenues (Expenses)				
Interest income	\$ 837,464	\$ 45,180	\$ 244,176	
Interest expense	(5,337,459)	(5,464,685)	(5,580,740)	
Other	4,153	622,985	21,420	
Total nonoperating revenues (expenses)	\$ (4,495,842)	\$ (4,796,520)	\$ (5,315,144)	
Change in Net Position	\$ 9,916,943	\$ 7,293,672	\$ 702,207	

Electric System

The District’s electric system distributes electricity to approximately 9,900 meters, including 852 commercial customers and 12 industrial customers. The District generates power from District-owned Box Canyon Dam and Calispel Powerhouse, and during 2022 purchased power from Bonneville Power Administration, Seattle City Light, Shell Energy North America (US), L.P. (Shell) and Avista Corporation, in addition to other isolated transactions with market counterparties. Avista Corporation serves as the District’s balancing authority.

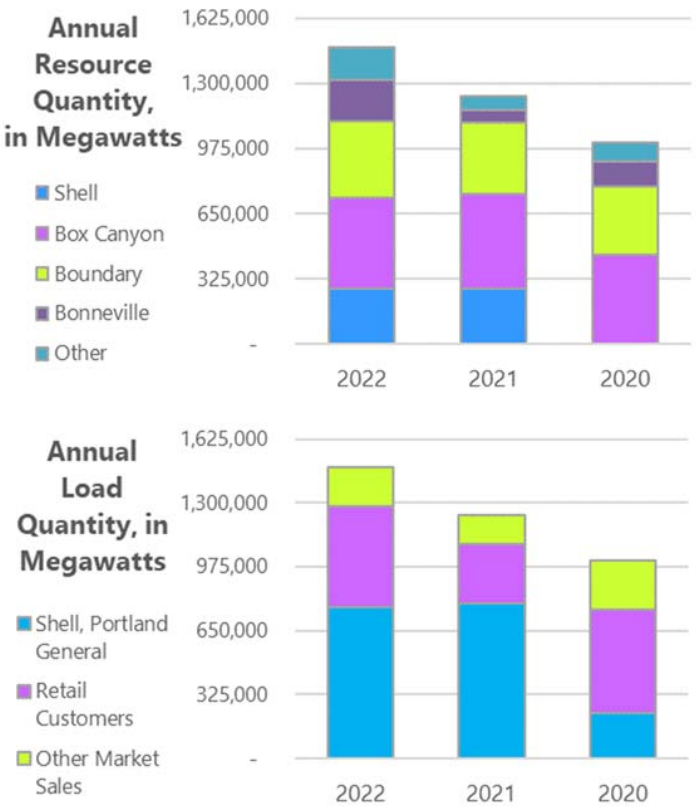
Factors influencing Electric System economic results:

• In April 2021, the industrial site formerly owned by Ponderay Newsprint Company (PNC) was purchased by Allrise Capital Inc. (Allrise) through its wholly owned subsidiary, Ponderay Real Estate, LLC. PNC, which had historically accounted for approximately 70% of the District’s retail energy deliveries, ceased operations and declared Chapter 7 bankruptcy in June 2020. Allrise purchased the property for \$18.1 million through auction as part of the bankruptcy proceedings. Allrise began cryptomining operations at the site in late 2021, consuming an hourly average of 5 megawatts of power at the start of 2022, increasing to 26 average megawatts of power by August 2022.

During 2022, Allrise’s subsidiary, Merkle Standard Infrastructure LLC, partnered with a cryptomining equipment manufacturer and formed Cascade Digital Mining, LLC (Cascade). The District executed a contract with Cascade in August 2022 to provide up to 100 MW of power to serve Cascade’s cryptomining load. Power is provided as a combination of District resources and market power purchased by the District from Shell. The contract expires September 30, 2023, and is collateralized by a \$16 million letter of credit. Energy loads since the beginning of the contract on September 1, 2022 have averaged 46 megawatts of consumption per hour.

Total energy sales to the Allrise site were \$17.3 million for the year ended December 31, 2022, and \$655 thousand for the year ended December 31, 2021.

• 2022 completed the second operating year of the District’s 5-year contract with Shell. Under the contract, the District sells to Shell specified-source Box Canyon power, and power assigned to the District from Seattle City Light. The District purchases power from Shell to meet its forecasted monthly energy requirements. The net of the transactions result in fixed monthly payments from Shell to the District over the five-year contract period. Net payments under this agreement to the District were \$16.2 million and \$15.7 million for the years ended December 31, 2022 and December 31, 2021, respectively.



- The District executed a separate agreement with Shell in August 2022 as the District’s wholesale provider of market power for Cascade’s load. Cascade elects on a monthly basis whether to purchase power in excess of District resources for the subsequent month, and, if elected and prepaid, the District executes the block purchase transaction with Shell.
- The District received an average of 23.85 megawatts of power per hour from the Bonneville Power Administration during 2022. The District is under a 20-year contract with BPA for power deliveries when the District’s dedicated resources are determined to be insufficient to meet the District’s total energy load for the upcoming October through September fiscal year. When PNC closed in June 2020, the District’s resources were considered sufficient to meet the District’s expected load for the 2020-2021 fiscal year, and no power deliveries were made for the 12-month period beginning September 2020. During the subsequent calculation period in July 2021, District forecasted loads for the 2021-2022 fiscal year, including forecasted loads submitted by Allrise, were expected to be more than the District’s forecasted resources, and power deliveries resumed beginning October 2021. The District receives an hourly average of 24 megawatts of power from BPA, shaped in fixed monthly blocks.

Electric System Selected Data	2022	2021	2020
Residential revenues	\$ 14,190,235	\$ 13,125,717	\$ 11,118,942
Commercial revenues	3,747,811	3,574,894	2,897,757
Industrial revenues	23,051,958	5,596,725	16,685,419
Residential customer growth	1.88%	2.33%	1.78%
Residential energy rate (cents per kWh)	6.23¢	6.12¢	5.42¢
Residential monthly system access charge	\$35.50	\$35.50	\$35.50

- Pend Oreille County experienced a fairly cold year during 2022. As a winter peaking utility, customer billings can fluctuate greatly depending on cold weather events. The District reached an all-time peak for electric usage (excluding the Allrise site) of 85 megawatts on December 22, 2022.
- The District implemented a 1.25% electric revenue increase effective January 1, 2022. The blended residential rate, including the monthly access fixed charge, was 8.48 cents per kilowatt hour compared to 8.47 cents and 7.36 cents per kilowatt hour in 2021 and 2020, respectively. The United States average residential retail price in 2022 per the U.S. Energy Information Administration was 15.12 cents per kilowatt hour.

• Overall Electric System operating costs have remained fairly consistent over the past three years. Utility taxes are based on gross revenue received, and increased approximately 77% in direct relation to the \$17 million increase in industrial revenue during 2022. Industrial revenues in 2020 included several months of PNC operations, resulting in higher utility taxes.



**Electric System Financial Data**

as of December 31	2022	2021	2020
Total assets and deferred outflows of resources	\$ 125,611,243	\$ 116,299,071	\$ 105,933,024
Total liabilities and deferred inflows of resources	37,261,600	39,562,318	38,193,137
Net investment in capital assets	52,463,388	49,151,708	51,289,578
Restricted	13,837,732	12,816,969	12,294,409
Unrestricted	22,048,523	14,768,076	4,155,900
Total net position	\$ 88,349,643	\$ 76,736,753	\$ 67,739,887
<b>Capital Assets</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Transmission and distribution	\$ 126,091,816	\$ 123,773,395	\$ 122,298,657
Hydroelectric plant and equipment	1,525,945	1,525,945	1,525,945
General plant	8,983,412	4,420,834	4,420,834
Total utility plant in service	136,601,173	129,720,174	128,245,436
Construction work in progress	1,821,086	1,694,965	1,191,445
Total gross utility plant	\$ 138,422,259	\$ 131,415,139	\$ 129,436,881
<b>Long Term Debt</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total debt outstanding	\$ 7,763,357	\$ 8,554,242	\$ 9,333,030

In February 2022, the District purchased a perpetual easement for use of a railroad right-of-way to access and maintain its 115-kilovolt transmission line. The \$4,267,500 purchase replaced a rental agreement that the District had paid over the previous 25 years.

The Electric System currently has one revenue bond outstanding, with approximately 9 years remaining on the term. The District’s bond covenants require a debt service coverage ratio of at least 1.25, and the District has exceeded its bond covenants the last three years with ratios of 16.13, 13.12, and 3.41 for 2022, 2021, and 2020, respectively. The District funds a rate stabilization account, the amount of which may be classified as revenue for debt service coverage purposes in the event that the District’s net operating revenues are insufficient to meet that year’s debt service coverage bond covenant. The funding for this account moves cash from unrestricted to restricted; there is no deferred revenue associated with this account and it is used only for the calculation of debt service coverage. The balance in this account was \$10 million as of December 31, 2022, 2021, and 2020.

**Box Canyon Production System**

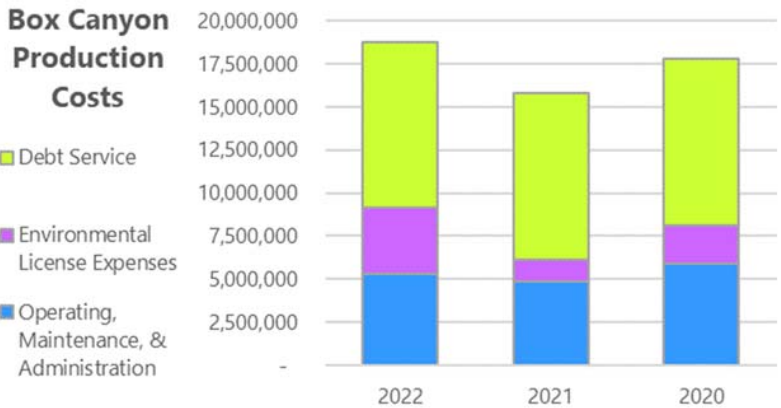
The Box Canyon Production System produces hydroelectric power from the Box Canyon Project, the output of which is sold to the Electric System. The Box Canyon Project is located on the Pend Oreille River, is licensed by the Federal Energy Regulatory Commission (FERC), and was completed in 1956. As a run-of-the-river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

<b>Box Canyon Production System Selected Data</b>	2022	2021	2020
Total cost of production	\$ 17,265,054	\$ 14,090,877	\$ 18,326,191
Operating expenses	13,772,434	11,065,965	11,455,539
Annual generation in megawatt hours	450,197	475,133	444,275
Average hourly generation in megawatt hours	51.39	54.24	50.71
Cost per megawatt hour	\$38.35	\$29.66	\$41.25

**Factors influencing Box Canyon Production System 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 2022 and 2020. The Plant was off-line for most of the month of June 2022, during which maintenance was performed. Box Canyon produced an annual average of 51 megawatts per hour in 2022, with a peak generation of 81 megawatts that occurred in July.
- The Box Canyon Project experienced an overspeed event on September 29, 2022, when the Project’s Unit 4 turbine accelerated to free-flow speeds. The Pend Oreille River above Box Canyon was temporarily drawn down in order to install head gates and safely shut down the runaway unit. Upon investigation, it was determined that the unprecedented event was due to a governor valve failure. While the unit was removed for inspection for damage sustained from the event, the District also performed routine maintenance and is undergoing repair work on the unit rotor poles, which will be completed in early 2023.
- Operating expenses for the Box Canyon Production System include environmental work performed as required by FERC licensing conditions. The type and expense of environmental work will vary from year to year and consists of cultural studies, historical education, fisheries and stream-rehabilitation projects, recreation and wildlife projects, and water quality programs on the Pend Oreille River. In December 2021, FERC approved an amendment to the Box Canyon license, allowing for annual payments to the Kalispel Tribe of Indians for environmental mitigation work in lieu of constructing downstream fish passage facilities at Box Canyon Dam and upstream and downstream facilities at the Calispell Creek Pumping Plant. The District made the first payment of \$2,300,000 in February 2022, which was expensed in 2019, and made the second annual \$2,300,000 payment in December 2022. Payments will be expensed annually over the next 25 years. In addition, the District increased the licensing costs liability in 2021 by approximately \$29.8 million, representing the present value of the 25-year payment stream. The District’s licensing costs regulatory asset was increased by the same \$29.8 million, and both the licensing costs liability and regulatory asset will decrement each year based on annual payments made to outside agencies.



Box Canyon Production System Financial Data

as of December 31	2022	2021	2020
Total assets and deferred outflows of resources	\$ 232,555,017	\$ 237,563,719	\$ 214,827,519
Total liabilities and deferred inflows of resources	178,204,071	182,014,944	157,152,481
Net investment in capital assets	24,838,226	25,179,681	25,989,434
Restricted	14,476,459	13,801,458	13,930,092
Unrestricted	15,036,261	16,567,636	17,755,512
Total net position	\$ 54,350,946	\$ 55,548,775	\$ 57,675,038
<b>Capital Assets</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Hydroelectric plant and equipment	\$ 194,905,222	\$ 194,872,852	\$ 149,793,867
General plant	14,040,497	14,040,497	14,040,497
Total utility plant in service	\$ 208,945,719	\$ 208,913,349	\$ 163,834,364
Construction work in progress	65,423	5,610	46,515,619
Total gross utility plant	\$ 209,011,142	\$ 208,918,959	\$ 210,349,983
<b>Long Term Debt</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total debt outstanding	\$ 135,136,804	\$ 139,631,565	\$ 144,146,646

The District’s bonds are rated by Fitch Ratings and Moody’s Investors Service. Fitch Ratings has assigned the District an A- rating with a positive outlook, and Moody’s Investor Service has assessed a Baa2 rating with a stable outlook. Both rating agencies have noted the District’s conservative financial strategy, strong liquidity, and willingness to raise rates as strengths.

Water System

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

Water System Selected Data	2022	2021	2020
Operating revenues	\$ 659,037	\$ 630,781	\$ 568,300
Operating expenses	810,892	753,732	711,008
<i>Annual Water Usage by System, in gallons:</i>			
Metaline Falls	15,575,861	17,817,217	12,580,150
Sandy Shores	4,124,793	5,273,058	3,981,776
Riverbend	2,530,174	2,976,247	2,437,872
Greenridge	776,780	1,274,442	834,050
Riverview	1,769,446	2,401,526	1,638,620
Sunvale	2,375,740	4,367,213	2,785,403
Lazy Acres	995,360	1,731,860	1,231,940
Holiday Shores	1,109,138	1,266,000	788,693
Granite/Sacheen	738,030	858,232	878,372

Factors influencing Water System economic results:

- The District provides utility water service to approximately 600 customers. Metaline Falls is the only District-owned system that serves an incorporated town. At 196 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 29 to 82 customers.

- The District began performing contracted Water Operator services to a water system owned by the town of Cusick in 2018. Cusick reimburses the District for operations and administrative work performed, as well as additional expenses incurred by the District on Cusick’s behalf. \$68,926, \$66,156, and \$71,762 is included as other revenue for the consolidated water systems for 2022, 2021, and 2020 respectively, which offsets approximately the same amount of expenses for each year. This contract expired by its terms on December 31, 2022 and was not extended for the 2023 year.



Water System Financial Data

as of December 31	2022	2021	2020
Total assets and deferred outflows of resources	\$ 5,140,026	\$ 5,376,892	\$ 5,104,304
Total liabilities and deferred inflows of resources	723,497	838,323	751,068
Net investment in capital assets	4,527,279	4,649,277	4,901,130
Restricted	11,543	25,605	-
Unrestricted	(122,293)	(136,313)	(547,894)
Total net position	\$ 4,416,529	\$ 4,538,569	\$ 4,353,236
<b>Capital Assets</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Transmission and distribution	\$ 9,281,798	\$ 9,265,861	\$ 8,668,704
General plant	78,047	78,047	78,047
Total utility plant in service	9,359,845	9,343,908	8,746,751
Construction work in progress	153,865	109,922	457,215
Total gross utility plant	\$ 9,513,710	\$ 9,453,830	\$ 9,203,966
<b>Long Term Debt</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Total debt outstanding	\$ 292,664	\$ 340,313	\$ 52,390

- The District plans to replace approximately 5,100 feet of water piping for the Metaline Falls water system. The District was awarded funding for this project in 2019 as a sub-recipient through the Town of Metaline Falls from a Washington State Department of Commerce Community Development Block Grant. \$113,262 has been expended on this project through December 31, 2022, and the District anticipates completion of this project in 2023.
- The Riverview system completed the installation of a water filtration system during 2021 to treat arsenic, iron and manganese. The three-year project totaled \$592,543 and was funded with \$273,100 in grant funds and \$305,900 in loans through the Washington State Department of Health, and \$13,543 in District funds.

Community Network System

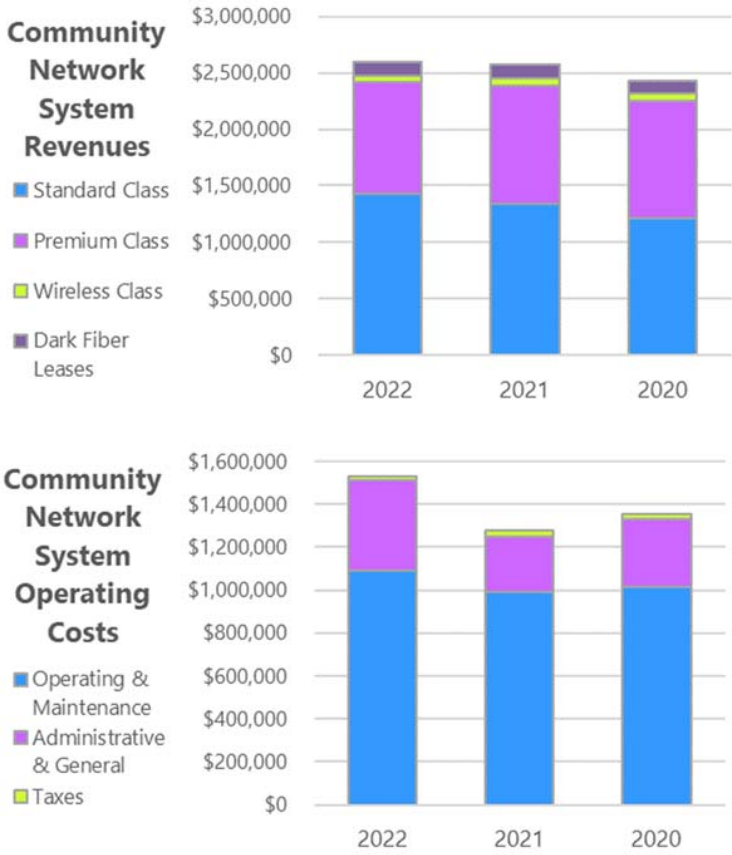
The District began building a fiber optic based communications system in 1996 to allow high speed communications between the District’s electric equipment. The District subsequently extended use shortly thereafter to Pend Oreille County municipal customers, including schools, libraries, and hospital 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 end users through local retail internet service providers.

Community Network System Selected Data	2022	2021	2020
Operating revenues	\$ 3,415,707	\$ 3,688,136	\$ 3,493,936
Operating expenses	3,752,966	3,368,453	3,772,341
Average fiber standard class end users	2,617	2,451	2,220
Average wireless class end users	123	134	134
Average premium class connections	76	75	74

Factors influencing Community Network System economic results:

- The Community Network System continued to see substantial growth during 2022, including both new construction line extensions and installation of services to existing homes that had previously not received service. Contributions in aid of construction of \$243,272, \$448,575, and \$319,421 in 2022, 2021, and 2020, respectively, have offset costs of expanding fiber infrastructure. The District has averaged 195 new standard class customers annually over the past three years.
- Growth for the System has offset the need for rate increases for standard wholesale services. Expenses for the Community Network System have remained fairly constant over the past 3 years. At \$2.31 million in 2022, \$2.28 million in 2021, and \$2.51 million in 2020, depreciation is the largest component of operating expenses.
- The District has been increasing reserves for the system, adding approximately \$803,200, \$873,500, and \$540,500 to cash reserves in 2022, 2021, and 2020, respectively.



Community Network System Financial Data

as of December 31	2022	2021	2020
Total assets and deferred outflows of resources	\$ 25,362,364	\$ 26,334,381	\$ 26,556,062
Total liabilities and deferred inflows of resources	4,948,769	5,544,708	6,004,125
Net investment in capital assets	18,873,896	20,574,210	21,938,654
Restricted	332,547	44,810	-
Unrestricted	1,207,152	170,653	(1,386,717)
Total net position	\$ 20,413,595	\$ 20,789,673	\$ 20,551,937
Capital Assets	2022	2021	2020
Transmission and distribution	\$ 46,367,754	\$ 45,887,544	\$ 45,251,812
General plant	61,721	61,721	61,721
Total utility plant in service	46,429,475	45,949,265	45,313,533
Construction work in progress	244,363	128,008	18,810
Total gross utility plant	\$ 46,673,838	\$ 46,077,273	\$ 45,332,343
Long Term Debt	2022	2021	2020
Total debt outstanding	\$ 1,757,000	\$ 1,945,333	\$ 2,454,056

The Community Network System holds a revenue bond with a bank. Issued in 2017, the debt was used to partially repay inter-system debt to fund capital improvements for the System. The bond has a balance as of December 31, 2022 of \$1,717,000 and is expected to be fully paid in 5 years. The Community Network System also carries an inter-system balance with the Electric System. This debt, which has a balance as of December 31, 2022 of \$40,000, was originally issued to the Electric System in 2005 for communication infrastructure. Payment of the debt was transferred to the Community Network System upon the System’s creation in 2010. An inter-system loan between the Community Network System and the Box Canyon Production System was paid in full in 2021.

Contacting the District’s Financial Management

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

April D. Owen, CPA  
Director of Finance/Auditor

Combined Statements of Net Position  
Public Utility District No. 1 of Pend Oreille County

<b>Assets and Deferred Outflows of Resources</b>	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total as of December 31,	
					2022	2021
<b>Current Assets</b>						
Cash and cash equivalents						
Unrestricted	\$ 28,007,736	\$ 16,323,937	\$ -	\$ 2,719,745	\$ 47,051,418	\$ 41,697,731
Restricted	22,802,911	7,037,996	-	208,310	30,049,217	29,758,373
Restricted short-term investments	963,975	9,857,010	-	-	10,820,985	10,691,014
Receivables						
Accounts and contracts, net	2,457,309	-	50,606	222,789	2,730,704	2,387,694
Other	2,304,160	40,313	37,107	1,546	2,383,126	3,424,231
Unbilled revenue	602,046	-	-	-	602,046	378,913
Materials and supplies	1,806,941	449	52,993	892,080	2,752,463	2,550,733
Prepaid expenses and other	111,412	74,519	-	-	185,931	106,870
Due from other systems	278,634	-	-	-	-	-
Total current assets	59,335,124	33,334,224	140,706	4,044,470	96,575,890	90,995,559
<b>Noncurrent Assets</b>						
Contracts and notes receivable	2,113,783	-	-	-	-	-
Nonutility plant	4,413,833	-	-	-	4,413,833	4,587,053
Licensing costs - regulatory asset	-	38,034,968	-	-	38,034,968	33,926,058
Net pension asset	1,507,929	656,679	97,286	170,250	2,432,144	6,725,481
Total noncurrent assets	8,035,545	38,691,647	97,286	170,250	44,880,945	45,238,592
<b>Utility Plant</b>						
Land and land rights	7,760,021	789,950	77,305	61,721	8,688,997	4,421,497
Hydroelectric plant and equipment	1,525,945	194,905,222	-	-	196,431,167	196,398,797
Structures, buildings and equipment	126,091,816	-	9,281,798	46,367,754	181,741,368	178,926,800
Intangible assets	1,223,391	13,250,547	742	-	14,474,680	14,179,602
Construction work in progress	1,821,086	65,423	153,865	244,363	2,284,737	1,938,505
	138,422,259	209,011,142	9,513,710	46,673,838	403,620,949	395,865,201
Less accumulated depreciation and amortization	81,494,966	50,054,053	4,693,767	25,669,854	161,912,640	150,522,171
Net utility plant	56,927,293	158,957,089	4,819,943	21,003,984	241,708,309	245,343,030
Total assets	124,297,962	230,982,960	5,057,935	25,218,704	383,165,144	381,577,181
<b>Deferred Outflows of Resources</b>						
Deferred amount on refinancing debt	40,868	1,017,941	-	-	1,058,809	1,161,783
Deferred pension outflows	1,272,413	554,116	82,091	143,660	2,052,280	253,166
Total deferred outflows of resources	1,313,281	1,572,057	82,091	143,660	3,111,089	1,414,949
Total assets and deferred outflows of resources	\$ 125,611,243	\$ 232,555,017	\$ 5,140,026	\$ 25,362,364	\$ 386,276,233	\$ 382,992,130

See accompanying notes

Combined Statements of Net Position  
Public Utility District No. 1 of Pend Oreille County

<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total as of December 31,	
					2022	2021
<b>Current Liabilities</b>						
Accounts payable	\$ 2,461,008	\$ 121,721	\$ 273	\$ 5,893	\$ 2,588,895	\$ 2,348,348
Accrued compensation and benefits	2,031,966	-	-	-	2,031,966	1,988,246
Accrued taxes	1,166,679	97,386	2,328	1,767	1,268,160	713,639
Customer prepayments and deposits	4,217,519	-	8,419	410,564	4,636,502	2,498,910
Accrued bond interest	154,650	3,052,996	907	33,310	3,241,863	3,310,184
Current portion of long-term debt	678,333	3,985,000	18,879	356,000	5,038,212	4,733,701
Current portion of licensing cost liability and unearned revenue	2,000,000	2,685,099	-	49,588	4,734,687	7,200,750
Due to other systems	-	-	265,301	13,333	-	-
Total current liabilities	12,710,155	9,942,202	296,107	870,455	23,540,285	22,793,778
<b>Other Liabilities</b>						
Unearned revenue	15,085,541	-	-	2,421,837	15,420,262	17,475,991
Licensing costs liability	-	36,073,230	-	-	36,073,230	31,889,645
Net pension liability	868,005	378,002	56,000	98,001	1,400,008	641,587
Total other liabilities	15,953,546	36,451,232	56,000	2,519,838	52,893,500	50,007,223
<b>Long-term Debt</b>						
Revenue bonds	7,058,357	131,151,804	-	1,361,000	139,571,161	145,324,474
Other long-term debt	26,667	-	273,785	-	300,452	359,945
Due to other systems	-	-	-	26,667	-	-
Total long-term debt	7,085,024	131,151,804	273,785	1,387,667	139,871,613	145,684,419
Total liabilities	35,748,725	177,545,238	625,892	4,777,960	216,305,398	218,485,420
<b>Deferred Inflows of Resources</b>						
Deferred pension inflows	1,512,875	658,833	97,605	170,809	2,440,122	6,892,940
Total deferred inflows of resources	1,512,875	658,833	97,605	170,809	2,440,122	6,892,940
<b>Net Position</b>						
Net investment in capital assets	52,463,388	24,838,226	4,527,279	18,873,896	100,702,789	99,554,876
Restricted for						
Sullivan contract obligation	897,720	-	-	-	897,720	832,682
Debt service	1,628,975	13,842,010	-	175,000	15,645,985	15,216,014
Rate stabilization fund	10,000,000	-	-	-	10,000,000	10,000,000
Pensions	1,311,037	634,449	11,543	157,547	2,114,576	640,146
Total restricted	13,837,732	14,476,459	11,543	332,547	28,658,281	26,688,842
Unrestricted	22,048,523	15,036,261	(122,293)	1,207,152	38,169,643	31,370,052
Total net position	88,349,643	54,350,946	4,416,529	20,413,595	167,530,713	157,613,770
Total liabilities, deferred inflows of resources, and net position	\$ 125,611,243	\$ 232,555,017	\$ 5,140,026	\$ 25,362,364	\$ 386,276,233	\$ 382,992,130

See accompanying notes

Combined Statements of Revenue, Expenses, and Changes in Net Position  
Public Utility District No. 1 of Pend Oreille County

Combined Statements of Revenue, Expenses, and Changes in Net Position	Electric System	Box Canyon	Water System	Community	Combined Total	
		Production System		Network System	Year ended December 31,	
					2022	2021
<b>Operating Revenues</b>						
Sales to retail customers	\$ 40,990,004	\$ -	\$ 559,099	\$ 2,603,835	\$ 44,152,938	\$ 25,414,409
Sales to other utilities	37,006,292	-	-	-	37,006,292	30,177,934
Intersystem sales	193,213	17,265,054	-	513,284	-	-
Contributed capital	1,507,241	-	16,996	243,272	1,767,509	1,456,740
Other	771,835	7,200	82,942	55,316	684,355	403,610
Total operating revenues	80,468,585	17,272,254	659,037	3,415,707	83,611,094	57,452,693
<b>Operating Expenses</b>						
Power costs	53,289,470	64,519	-	-	36,088,935	17,919,969
Operations and maintenance	6,632,892	7,356,740	369,490	1,094,042	14,666,101	12,930,174
Administrative and general	3,554,279	1,756,228	227,596	415,400	5,801,131	5,589,502
Taxes	2,448,140	102,680	28,798	19,861	2,599,479	1,544,943
Pension expense (credit)	(744,108)	(324,048)	(48,007)	(84,011)	(1,200,174)	(2,804,916)
Depreciation and amortization	3,885,833	4,816,315	233,015	2,307,674	11,242,837	10,182,829
Total operating expenses	69,066,506	13,772,434	810,892	3,752,966	69,198,309	45,362,501
Net operating revenues (expenses)	11,402,079	3,499,820	(151,855)	(337,259)	14,412,785	12,090,192
<b>Nonoperating Revenues (Expenses)</b>						
Interest income	422,153	387,276	347	31,067	837,464	45,180
Interest on debt	(178,603)	(5,592,352)	(3,916)	(70,015)	(5,844,886)	(6,033,126)
Subsidies on debt	-	507,427	-	-	507,427	568,441
Sullivan net expense	(109,129)	-	-	-	(109,129)	(77,810)
Grant revenue	56,208	-	36,762	-	92,970	659,040
Other, net	20,182	-	(3,378)	129	20,312	41,755
Total nonoperating revenues (expenses)	210,811	(4,697,649)	29,815	(38,819)	(4,495,842)	(4,796,520)
Change in net position	11,612,890	(1,197,829)	(122,040)	(376,078)	9,916,943	7,293,672
<b>Accumulated Net Position</b>						
Beginning of year	76,736,753	55,548,775	4,538,569	20,789,673	157,613,770	150,320,098
End of year	\$ 88,349,643	\$ 54,350,946	\$ 4,416,529	\$ 20,413,595	\$ 167,530,713	\$ 157,613,770

See accompanying notes

Combined Statements of Cash Flows  
Public Utility District No. 1 of Pend Oreille County

Combined Statements of Cash Flows	Electric System	Box Canyon	Water System	Community	Combined Total	
		Production System		Network System	Year ended December 31,	
					2022	2021
<b>Cash Flows from Operating Activities</b>						
Receipts from customers	\$ 42,447,419	\$ -	\$ 574,848	\$ 2,970,174	\$ 45,992,441	\$ 26,151,201
Receipts from other operating revenues	37,064,384	7,200	68,926	-	37,140,510	30,307,149
Payments to suppliers for goods and services	(38,662,169)	(7,774,676)	(169,167)	(519,270)	(47,125,282)	(26,337,894)
Payments to employees for services	(7,525,072)	(3,561,092)	(443,474)	(886,837)	(12,416,475)	(12,218,024)
Payments from (to) other systems	(17,287,775)	16,942,730	52,797	292,248	-	-
Net cash from operating activities	16,036,787	5,614,162	83,930	1,856,315	23,591,194	17,902,432
<b>Cash Flows from Noncapital Financing Activities</b>						
Receipts from nonoperating assets	57,952	-	-	-	57,952	82,657
Receipts from government agencies	-	-	-	-	-	71,528
Insurance proceeds	-	-	-	-	-	24,229
Proceeds from grant funding	11,611	-	-	-	11,611	327,597
Payments for grant funded projects	-	-	-	-	-	(60,545)
Intersystem financing	271,009	-	(3,031)	(267,978)	-	-
Net cash from noncapital financing activities	340,572	-	(3,031)	(267,978)	69,563	445,466
<b>Cash Flows From Capital and Related Financing Activities</b>						
Acquisition and construction of capital assets	(7,188,851)	(103,847)	(63,369)	(604,455)	(7,960,522)	(3,541,408)
Proceeds from sale of assets	13,600	-	-	-	13,600	10,237
Proceeds from grant funding	-	-	34,303	-	34,303	342,478
Proceeds from issuance of note payable	-	-	-	-	-	305,900
Payments on revenue bonds	(635,000)	(3,890,000)	-	(175,000)	(4,700,000)	(4,832,714)
Interest paid on revenue bonds	(325,175)	(6,191,482)	-	(36,705)	(6,553,362)	(6,797,592)
Subsidy received on revenue bonds	-	507,427	-	-	507,427	568,441
Payments on notes payable	(13,333)	-	(47,650)	-	(60,983)	(31,311)
Interest paid on notes payable	-	-	(4,183)	-	(4,183)	(3,600)
Net cash from capital and related financing activities	(8,148,759)	(9,677,902)	(80,899)	(816,160)	(18,723,720)	(13,979,569)
<b>Cash Flows from Investing Activities</b>						
Purchases of investments	(11,578)	(118,393)	-	-	(129,971)	(2,869)
Sales and maturities of investments	-	-	-	-	-	450,000
Interest on investments, contracts, and notes	419,122	387,276	-	31,067	837,465	45,179
Net cash from investing activities	407,544	268,883	-	31,067	707,494	492,310
Net Change in Cash and Cash Equivalents	8,636,144	(3,794,857)	-	803,244	5,644,531	4,860,639
Cash and Cash Equivalents						
Beginning of year	42,174,503	27,156,790	-	2,124,811	71,456,104	66,595,465
End of year	\$ 50,810,647	\$ 23,361,933	\$ -	\$ 2,928,055	\$ 77,100,635	\$ 71,456,104

See accompanying notes

Reconciliation of Net Operating Revenues (Expenses) to Cash Flows from Operating Activities	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total Year ended December 31,	
					2022	2021
Net operating revenues (expenses)	\$ 11,402,079	\$ 3,499,820	\$ (151,855)	\$ (337,259)	\$ 14,412,785	\$ 12,090,192
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities:						
Depreciation and amortization	3,885,833	4,816,315	233,015	2,307,674	11,242,837	10,182,829
Write off of preliminary project costs	-	-	-	-	-	1,833,549
Changes in operating assets and liabilities						
Receivables	746,127	(26,422)	(21,465)	(2,522)	695,718	(2,113,378)
Unbilled revenue	(223,133)	-	-	-	(223,133)	(140,909)
Due to (from) other systems	(79,772)	-	79,772	-	-	-
Materials and supplies	233,400	32,535	(8,646)	(99,904)	157,385	185,691
Prepaid expenses and other current assets	(37,070)	(41,992)	-	-	(79,062)	206,159
Unearned revenue	(2,000,000)	-	-	(49,588)	(2,049,588)	(2,049,588)
Deferred relicensing costs	-	(2,340,665)	-	-	(2,340,665)	12,186
Pension	(744,108)	(324,048)	(48,007)	(84,011)	(1,200,174)	(2,804,916)
Accounts payable, customer deposits, and prepayments	2,246,304	4,121	925	125,494	2,376,844	464,123
Accrued compensation, benefits, and taxes	607,127	(5,502)	191	(3,569)	598,247	36,494
Net cash from operating activities	\$ 16,036,787	\$ 5,614,162	\$ 83,930	\$ 1,856,315	\$ 23,591,194	\$ 17,902,432
<b>Supplemental Disclosure of Noncash Activities</b>						
Construction costs included in accounts payable	\$ 458,384	\$ 31,161	\$ 3,250	\$ 27,473	\$ 520,268	\$ -

**Note 1 - Organization and Significant Accounting Policies**

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

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

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

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

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

**New accounting standards** – In June 2017, the GASB issued Statement No. 87, *Leases*, which establishes revised standards on lease accounting and financial reporting, effective for fiscal years beginning after June 15, 2021. The District determined that the provisions of GASB No. 87 would not have a material impact on the financial statements and accordingly has not recorded any lease assets or liabilities for the years ended December 31, 2022 and 2021.

**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. 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 Electric System for the years ended December 31, 2022 and 2021 was \$15,000 and \$33,600, respectively.

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

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

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

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

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

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

**Contributed capital** - Contributions in aid of construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. The payments are initially recorded as liabilities (customer prepayments and deposits), 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 present value balance was \$38,034,968 and \$33,926,058 as of December 31, 2022 and 2021, respectively.

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 \$384,309 and \$433,898 as of December 31, 2022 and 2021, respectively.

The Community Network System unearned revenue includes an Electric System \$4.25 million prepayment for future broadband services. Funds from the Electric System were used by the Community Network System as the matching cash requirement of an American Recovery and Reinvestment Act grant. The unamortized balance associated with this payment was \$2,087,116 and \$2,341,760 as of December 31, 2022 and 2021, 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, allowing 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, 2022 and 2021 was \$11,085,541 and \$11,091,681, respectively.

The Ponderay Newsprint Company previously posted \$10 million with the District as contract security. Upon Ponderay Newsprint Company's closure, the District deposited the \$10 million as unrestricted funds and is amortizing the balance on a straight-line basis over the 5-year life of the replacement Shell Energy North America agreement (Note 5). The unamortized balance as of December 31, 2022 and 2021 was \$6,000,000 and \$8,000,000, respectively.

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

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

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

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

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

**Preliminary project costs write off** – During 2021, FERC approved an amendment to the Box Canyon license, mitigating the requirement to construct downstream fish passage at Box Canyon dam and fish passage at Calispell Creek pumping plant (Note 8). The District had previously capitalized to construction work in progress studies and engineering related to the fish passage projects. As the projects were no longer required to be constructed, the District expensed \$1,833,549 in 2021 to Box Canyon Production System operations and maintenance expense.

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

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

**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, 2022, the District held the following cash and investments:

Type	Box Canyon				Combined Total	
	Electric System	Production System	Water System	Community Network System	as of December 31, 2022	2021
Cash deposits	\$ 38,827,386	\$ 3,303,608	\$ -	\$ 2,928,055	\$ 45,059,049	\$ 39,943,270
Local government investment pool	11,983,261	20,058,325	-	-	32,041,586	31,512,834
Money market funds	963,975	9,857,010	-	-	10,820,985	10,691,014
<b>Total Cash and Investments</b>	<b>\$ 51,774,622</b>	<b>\$ 33,218,943</b>	<b>\$ -</b>	<b>\$ 2,928,055</b>	<b>\$ 87,921,620</b>	<b>\$ 82,147,118</b>

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

	Electric System	Box Canyon Production System	Water System	Community Network System	Combined Total as of December 31, 2022 2021	
Unrestricted cash & cash equivalents						
Revenue funds	\$ 28,007,736	\$ 16,323,937	\$ -	\$ 2,719,745	\$ 47,051,418	\$ 41,697,731
Restricted cash & cash equivalents						
Bond principal and interest	819,650	7,037,996	-	208,310	8,065,956	7,834,010
Contract obligation	11,983,261	-	-	-	11,983,261	11,924,363
Rate stabilization	10,000,000	-	-	-	10,000,000	10,000,000
Subtotal	\$ 22,802,911	\$ 7,037,996	\$ -	\$ 208,310	\$ 30,049,217	\$ 29,758,373
Restricted short-term investments						
Bond reserve	\$ 963,975	\$ 9,857,010	\$ -	\$ -	\$ 10,820,985	\$ 10,691,014
Total Funds	\$ 51,774,622	\$ 33,218,943	\$ -	\$ 2,928,055	\$ 87,921,620	\$ 82,147,118

**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 2022 and 2021, investments were held in the State Treasurer’s Local Government Investment Pool (LGIP) or money market funds, 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 held in money market funds invested in U.S. government debt securities, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the state of Washington. U.S. government money market funds 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 60 days and no single investment may exceed 762 days in maturity. The LGIP annual comprehensive financial report is available on the State Treasurer’s website at: <https://tre.wa.gov>.

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

**Bond principal and interest accounts** - For each debt issue, the District is required by bond resolutions to maintain principal and/or sinking fund and interest accounts within the bond funds to provide for the next

semi-annual interest and annual principal/sinking fund payments falling due, which are reported as current assets. All bond funds are restricted by bond resolution to the payment of debt service obligations.

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

**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.

**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.

**Investments** – The District holds investments that are measured at fair value as of December 31, 2022 and 2021. 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, 2022	Total as of December 31, 2021
<u>Investments by fair value level</u>		
Money market funds		
Quoted prices in active markets for identical assets (Level 1)	\$ 10,820,985	\$ 10,691,014
Significant other observable inputs (Level 2)	-	-
Significant unobservable inputs (Level 3)	-	-
Total Investments	\$ 10,820,985	\$ 10,691,014

**Note 3 - Utility Plant**

The following changes occurred in the District’s utility plant for the years ended December 31, 2022 and 2021:

	2021 Balance	Additions	Retirements/ Transfers	2022 Balance
Land and land rights	\$ 4,421,497	\$ 4,267,500	\$ -	\$ 8,688,997
Hydroelectric plant and equipment	196,398,797	-	32,370	196,431,167
Structures, buildings, and equipment	178,926,800	-	2,814,568	181,741,368
Intangible assets	14,179,602	-	295,078	14,474,680
Construction work in progress	1,938,505	3,710,282	(3,364,050)	2,284,737
	395,865,201	7,977,782	(222,034)	403,620,949
Less accumulated depreciation and amortization	150,522,171	11,242,837	147,632	161,912,640
Net Utility Plant	\$ 245,343,030	\$ (3,265,055)	\$ (369,666)	\$ 241,708,309

	2020 Balance	Additions	Retirements/ Transfers	2021 Balance
Land and land rights	\$ 4,421,497	\$ -	\$ -	\$ 4,421,497
Hydroelectric plant and equipment	151,319,812	-	45,078,985	196,398,797
Structures, buildings, and equipment	176,219,173	-	2,707,627	178,926,800
Intangible assets	14,179,602	-	-	14,179,602
Construction work in progress	48,183,089	3,555,451	(49,800,035)	1,938,505
	394,323,173	3,555,451	(2,013,423)	395,865,201
Less accumulated depreciation and amortization	140,143,345	10,182,829	195,997	150,522,171
Net Utility Plant	\$ 254,179,828	\$ (6,627,378)	\$ (2,209,420)	\$ 245,343,030

In December 2021, the District entered into an agreement to purchase a perpetual easement along a railroad corridor to access and maintain its 115-kilovolt transmission line. The \$4,267,500 purchase, made in February 2022, replaced a rental agreement with the Port of Pend Oreille County that had been in place since 1997.

**Note 4 - Long-Term Debt**

During the year ended December 31, 2022 the following changes occurred in long-term debt:

<b>Electric System</b> Issue	Balance		Additions	Reductions	Balance		Amounts due within one year
	Dec 31, 2021				Dec 31, 2022		
<b>2019 Revenue Refunding Bonds</b>	\$ 7,925,000	\$ -	\$ 635,000	\$ 7,290,000	\$ 665,000		
Due in annual installments through January 1, 2031; interest at 3.00% - 5.00%.							
Subtotal	\$ 7,925,000	\$ -	\$ 635,000	\$ 7,290,000	\$ 665,000		
Unamortized premiums (discounts)	575,909	-	142,552	433,357	-		
Other long-term debt	53,333	-	13,333	40,000	13,333		
<b>Total Debt:</b>	\$ 8,554,242	\$ -	\$ 790,885	\$ 7,763,357	\$ 678,333		

Box Canyon Production System	Balance			Balance	Amounts due
Issue	Dec 31, 2021	Additions	Reductions	Dec 31, 2022	within one year
<b>2012 Clean Renewable Energy Bonds</b>	\$ 20,310,000	\$ -	\$ 2,180,000	\$ 18,130,000	\$ 2,200,000
Due in annual installments through January 1, 2030; interest at 0.834% - 4.571% and subject to subsidy payment.					
<b>2018 Revenue and Refunding Bonds</b>	80,220,000	-	1,710,000	78,510,000	1,785,000
Due in annual installments through 2048; interest at 5%.					
<b>2019 Revenue Refunding Bonds</b>	30,640,000	-	-	30,640,000	-
Due in annual installments through 2041; interest at 3.0 - 5.0%.					
Subtotal	\$ 131,170,000	\$ -	\$ 3,890,000	\$ 127,280,000	\$ 3,985,000
Unamortized bond premiums	8,555,728	-	618,989	7,936,739	-
Unamortized bond discount	(94,163)	-	(14,228)	(79,935)	-
<b>Total Debt:</b>	\$ 139,631,565	\$ -	\$ 4,494,761	\$ 135,136,804	\$ 3,985,000

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

Water System	Balance			Balance	Amounts due
Issue	Dec 31, 2021	Additions	Reductions	Dec 31, 2022	within one year
<b>Sunvale Water System</b>	\$ 28,380	\$ -	\$ 28,380	\$ -	\$ -
<b>Public Works Board Loan</b>					
Due in annual installments through June 2039; interest at 1.27%.					
<b>Riverview Water System</b>	237,696	-	10,804	226,892	10,804
<b>Department of Health Loan</b>					
Due in annual installments through October 2043; interest at 1.25%.					
<b>Riverview Water System</b>	57,400	-	2,870	54,530	2,479
<b>Department of Health Loan</b>					
Due in annual installments through October 2044; interest at 1.25%.					
<b>Granite Shores Water System</b>	16,839	-	5,597	11,242	5,596
<b>Public Works Board Loans</b>					
Due in annual installments through October 2026; interest at 1%.					
<b>Total Debt:</b>	\$ 340,315	\$ -	\$ 47,651	\$ 292,664	\$ 18,879

In April 2022, the District executed a loan agreement with Washington State Department of Health Drinking Water State Revolving Fund to fund upgrades to the Sunvale Water System. The loan amount will be based on the total project cost, but is not to exceed \$585,428, carries an interest rate of 1.25%, and is due in October 2045. There were no reimbursable costs as of December 31, 2022, and therefore no liability has been recorded. As the loan terms of this agreement were more beneficial to the ratepayers of the Sunvale Water System, the District was allowed to early terminate Sunvale Water System’s Public Works Board loan, and paid the balance in full without penalty in April 2022.

Community Network System	Balance			Balance	Amounts due
Issue	Dec 31, 2021	Additions	Reductions	Dec 31, 2022	within one year
<b>2017 Revenue Bonds</b>	\$ 1,892,000	\$ -	\$ 175,000	\$ 1,717,000	\$ 356,000
Due in semi-annual installments through January 1, 2027; interest at 3.88%.					
Subtotal	\$ 1,892,000	\$ -	\$ 175,000	\$ 1,717,000	\$ 356,000
Due to other systems	53,333	-	13,333	40,000	13,333
<b>Total Debt:</b>	\$ 1,945,333	\$ -	\$ 188,333	\$ 1,757,000	\$ 369,333

Scheduled debt service requirements to maturity is as follows:

Electric System				Box Canyon Production System		
	Interest	Principal	Total	Interest	Principal	Total
2023	\$ 292,675	\$ 678,333	\$ 971,008	\$ 6,015,487	\$ 3,985,000	\$ 10,000,487
2024	258,550	713,333	971,883	5,829,478	4,100,000	9,929,478
2025	222,675	748,334	971,009	5,631,188	4,305,000	9,936,188
2026	185,050	770,000	955,050	5,417,400	4,440,000	9,857,400
2027-2031	375,300	4,420,000	4,795,300	23,598,325	24,055,000	47,653,325
2032-2036	-	-	-	17,967,575	26,575,000	44,542,575
2037-2041	-	-	-	10,665,250	32,980,000	43,645,250
2042-2046	-	-	-	4,522,500	18,210,000	22,732,500
2047-2049	-	-	-	436,750	8,630,000	9,066,750
<b>Totals</b>	\$ 1,334,250	\$ 7,330,000	\$ 8,664,250	\$ 80,083,953	\$ 127,280,000	\$ 207,363,953

Water System				Community Network System		
	Interest	Principal	Total	Interest	Principal	Total
2023	\$ 3,630	\$ 18,879	\$ 22,509	\$ 63,225	\$ 356,000	\$ 419,225
2024	3,408	15,165	18,573	49,276	371,000	420,276
2025	3,224	15,165	18,389	34,745	386,000	420,745
2026	3,039	15,165	18,204	19,633	400,000	419,633
2027-2031	12,608	66,415	79,023	3,958	204,000	207,958
2032-2036	8,457	66,415	74,872	-	-	-
2037-2041	4,306	66,415	70,721	-	-	-
2042-2046	591	29,045	29,636	-	-	-
<b>Totals</b>	\$ 39,263	\$ 292,664	\$ 331,927	\$ 170,837	\$ 1,717,000	\$ 1,887,837

Note 5 - Power Purchase Contractual Agreements

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

period. The total fixed payments for the years ended December 31, 2022 and 2021 was \$16,199,171 and \$15,727,026.

In August 2022, the District entered into a second agreement with Shell effective September 1, 2022 to provide market product purchases under the Cascade contract (discussed below). Purchases occur on a monthly basis in block quantities as requested by Cascade and are based on market pricing at the time of purchase. The term of the contract aligns with the District's contract with Cascade, expiring September 30, 2023. Total payments for energy purchases under this agreement for the four-month period ended December 31, 2022 was \$6,245,775.

**Seattle City Light, Boundary Hydroelectric Project** – Seattle City Light owns and operates Boundary Hydroelectric Project (Boundary) located in northern Pend Oreille County. In Boundary's previous FERC license, Seattle City Light was required to assign to the District up to 48 megawatts of energy and capacity at cost, based on the District's weekly system load factor. After the Boundary Project was issued a new 42-year FERC license in March 2013, Seattle City Light and the District entered into a contract in 2014 (the Boundary Power Assignment Agreement) that continues to obligate Seattle City Light to deliver up to 48 megawatts of energy and capacity to the District, along with a pro rata share of the Boundary Project's environmental attributes. The agreement term corresponds with Boundary's FERC license and expires in 2055; however, the District's position is that the assignment requirement would continue beyond expiration of the agreement.

In February 2021, Seattle City Light and the District entered into a settlement agreement to resolve several disputes regarding the Boundary Power Assignment Agreement, including disputes over environmental attributes of the Boundary Project. The settlement agreement term runs through December 31, 2029, after which the Boundary Power Assignment Agreement will operate as it existed prior to the settlement agreement, unless otherwise agreed by the parties. In exchange for the District waiving its right to environmental attributes of Boundary Dam for the 9-year term, the settlement agreement removes the load-factor calculus, establishes a fixed schedule of shaped monthly power deliveries, and fixes an annual cost escalator for the District's cost share.

**Bonneville Power Administration** – Effective October 1, 2011, the District renewed take or pay power purchase contracts with Bonneville Power Administration (BPA) which run through September 30, 2028. The District receives Shaped Block purchases which are predetermined monthly levels of power delivered consistently throughout the month. Average annual power allocations are based on total forecasted customer load less District owned resources, and are subject to a cap based on regional critical water levels.

Upon the closure of Ponderay Newsprint Company in June 2020, the District's energy needs no longer exceeded District owned resources and as of October 1, 2020, the District's monthly Shaped Block purchases were reduced to zero through September 30, 2021. Power deliveries from BPA resumed beginning October 1, 2021 as District customer loads increased from Allrise Capital, Inc. operations. The average hourly power received for the 2021-2022 fiscal year was 23.47 MW, and was 24.58 MW for the 2022-2023 fiscal year.

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

In June 2020, PNC closed its operations and declared chapter 7 bankruptcy. The District promptly requested and received the full, unrestricted value of PNC's \$10 million cash collateral in satisfaction of the secured portion of the District's claim. The District also filed a claim for \$22,263,471, representing the unsecured amount of the District's claim. The bankruptcy trustee is currently marshalling administrative claims and is expected to make an interim distribution to general creditors around mid-2023.

**Allrise Capital Inc.** – In April 2021, the PNC site was auctioned as part of the bankruptcy proceedings. The successful bidder was Allrise Capital Inc. (Allrise), purchasing the property for \$18.1 million through its wholly owned subsidiary, Ponderay Real Estate, LLC. Allrise purchased maintenance power for the site through 2021 and added cryptomining operations load in December 2021. Allrise's average hourly energy consumption at the beginning of 2022 was approximately 3 MW, increasing to approximately 26 MW by August, 2022.

In August 2022, the District entered into a contract with Cascade Digital Mining, LLC (Cascade) for continued cryptomining operations at the site. Cascade is a joint venture comprised of majority-owner Merkle Standard Infrastructure LLC, which is a wholly-owned subsidiary of Allrise, and Bitmain Delaware Holding Company, Inc., a subsidiary of Bitmain which is a large cryptomining equipment manufacturer. The 13-month contract, effective September 1, 2022, supplies Cascade up to 100 MW of power, comprised of District resources and market purchases through Shell. Average hourly energy consumption was approximately 27 MW in September 2022 and increased to 66 MW by December 2022. The contract is primarily cost-based. Billings are prepaid on a monthly basis and are further secured by a \$16.065 million standby letter of credit. Total revenues from Allrise and Cascade for the year ended December 31, 2022 were \$17,299,344.

**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 2022 and 2021. 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/asset, 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 composed of three separate pension plans for membership purposes. PERS Plan 1 and Plan 2 are defined benefit plans, and 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 plans.

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 benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

**Benefits provided** - *PERS Plan 1* - Provides retirement, disability, and death benefits. Retirement benefits are calculated as 2% times the member's average final compensation (AFC) times the member's years of service. AFC is the average of the member's 24 consecutive highest-paid service credit months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from inactive status before age 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). Members became vested after the completion of five years of eligible service.

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

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

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

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

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

**Contributions** - *PERS Plan 1 contributions* - The PERS Plan 1 member contribution rate is established in statute at 6%. The employer contribution rate is developed by the Office of the State Actuary (OSA), adopted by the Pension Funding Council, and is subject to change by the Legislature.

*PERS Plan 2/3 contributions* - The PERS Plan 2/3 employer and employee contribution rates are developed by the 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 employer rate includes a component to address the PERS Plan 1 unfunded actuarial accrued liability (UAAL).

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

Required contribution rates (expressed as a percentage of covered payroll) at the close of fiscal year 2022 were as follows:

Actual Contribution Rates	Employer	Employee
PERS Plan 1	10.25%	6.00%
PERS Plan 2/3	10.25%	6.36%
PERS Plan 3	10.25%	5.00% - 15.00%

Both the District and the employees made the required contributions during fiscal years 2022 and 2021. The District's required employer contributions for the years ended December 31 were as follows:

Required Employer Contributions	2022	2021
PERS Plan 1	\$ 312,392	\$ 351,024
PERS Plan 2/3	529,487	583,306
Total	\$ 841,879	\$ 934,330

**Actuarial assumptions** - The total pension liability for each of the plans was determined by an actuarial valuation as of June 30, 2021, with the results rolled forward to June 30, 2022, using the following actuarial assumptions applied to all prior periods included in the measurement:

Actuarial Assumptions	
Inflation	2.75% total economic inflation, 3.25% salary inflation
Salary increases	In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity
Investment rate of return	7.00%

Mortality rates were developed using the Society of Actuaries' Publication H-2010 Mortality rates, which vary by member status (active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report.

OSA selected a 7.00% 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.

For each class of assets WSIB currently invests, the CMAs contain the expected annual return, standard deviation of the annual return, and correlations between the annual returns of each asset class. The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various future time horizons. The expected future rates of return (expected returns, net of pension plan investment expense, including inflation) are developed by the WSIB for each major asset class.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	20.00%	1.50%
Tangible Assets	7.00%	4.70%
Real Estate	18.00%	5.40%
Global Equity	32.00%	5.90%
Private Equity	23.00%	8.90%

The inflation component used to create the table above was 2.20% 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 7.00%. To determine the discount rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the assumptions described in the Certification Letter, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.00% on pension plan investments was applied to determine the total pension liability.

**Pension liability sensitivity** - The following table presents the District's proportionate share of the net pension liability (asset) for all plans it participates in, calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

District's Proportionate Share of Net Pension Liability (Asset) Sensitivity	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Proportionate share of the PERS Plan 1 net pension liability	\$ 1,870,391	\$ 1,400,008	\$ 989,473
Proportionate share of the PERS Plan 2/3 net pension liability (asset)	\$ 2,864,168	\$ (2,432,144)	\$ (6,783,400)

The pension liability (asset) has been allocated to the operating systems based on a percentage of total payroll charged to each system. The total pension liability (asset) for each system as of December 31, 2022, is as follows:

Proportionate Share of Plan Net Pension Liability (Asset)	PERS Plan 1	PERS Plan 2/3	Total
Electric System	\$ 868,005	\$ (1,507,929)	\$ (639,924)
Box Canyon Production System	378,002	(656,679)	(278,677)
Water System	56,000	(97,286)	(41,286)
Community Network System	98,001	(170,250)	(72,249)
Total	\$ 1,400,008	\$ (2,432,144)	\$ (1,032,136)

**Pension costs** - The District reports a liability (asset) for its proportionate share of each plan's net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022. The District's proportion of the net pension liability (asset) was based on the contributions received by PERS during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, 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 (asset), dollar value of each proportionate share of net pension liability (asset), 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, 2022	0.050281%	0.065578%
Percent share as of June 30, 2021	0.052536%	0.067514%
Net pension liability (asset) as of December 31, 2022	\$1,400,008	(\$2,432,144)
Pension expense (credit) recognized as of December 31, 2022	\$274,256	(\$1,474,430)

At December 31, 2022, 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	\$ -	\$ -	\$ 602,628	\$ (55,057)
Changes in actuarial assumptions	-	-	1,355,585	(354,941)
Difference between projected and actual investment earnings	-	(232,022)	-	(1,798,102)
Changes in proportion	-	-	(338,923)	-
Contributions paid to PERS subsequent to the measurement date	161,748	-	271,242	-
Total	\$ 161,748	\$ (232,022)	\$ 1,890,532	\$ (2,208,100)

The \$161,748 reported as deferred outflows of resources for PERS Plan 1 and \$271,242 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, 2023. 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
2023	\$ (98,187)	\$ (699,262)
2024	(89,179)	(591,650)
2025	(111,873)	(658,681)
2026	67,217	792,672
2027	-	279,850
2028 and Thereafter	-	288,261
Total	\$ (232,022)	\$ (588,810)

**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 2022 Annual Comprehensive Financial Report. This report may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Defined contribution pension plans** - The District maintains a defined contribution plan in accordance with the Internal Revenue Code Section 401(a). The District serves as trustee for this single-employer defined contribution plan, which is administered by MissionSquare Retirement. All District employees with 30 or more hours per week are eligible to participate in the plan.

The plan provides for an employer match of 50% of eligible employee deferral of employee straight-time wages, capped at a 4% employer match on an 8% employee deferral. District contributions and earnings for each employee are immediately fully vested. Employer contributions to this plan for 2022 and 2021

were \$257,136 and \$210,476 respectively, and are reported as expense within the balances on the Statement of Revenues, Expenses, and Changes in Net Position. All plan assets have been placed into trust for the exclusive benefit of plan participants and their beneficiaries.

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

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

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

**Savings plan** - The District maintains a Health Reimbursement Arrangement for employees. All plan assets have been placed into a multiple employer trust for the exclusive benefit of plan participants and their beneficiaries. Non-bargaining-unit employees receive a \$195 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 \$170 monthly contribution if they participate in District-sponsored wellness programs.

**Note 7 - Self-Insurance**

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

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

The designated liability pool reserve balance is \$3.45 million. Liability assessments are levied to replenish the reserves to the designated level at any time during the year that the actual reserves drop to \$500,000 less than the designated level.

The District is also a participant in the property pool, which maintains a self-insured retention level of \$250,000. The property pool provides the District with \$200 million shared excess coverage, attaching at the self-insured retention level for all property risks excepting flood and earthquake, which attach at 2% of total insured value. Any gap between the self-insured level and excess insurance is funded half by the property pool and half by the affected member. The deductible varies, but for most classes of property it is \$250.

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

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

	Liability		Property	
	2022	2021	2022	2021
Electric System	\$ 267,938	\$ 209,025	\$ 58,559	\$ 53,025
Box Canyon Production System	139,428	106,683	236,244	213,949
Water System	14,153	10,635	4,549	4,121
Community Network System	33,879	27,011	1,099	1,006
Total	\$ 455,398	\$ 353,354	\$ 300,451	\$ 272,101

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

**Note 8 - Commitments and Contingencies**

**Box Canyon Project** - The Federal Energy Regulatory Commission issued a 50-year license for the District’s Box Canyon Hydroelectric Project (Box Canyon Dam), which expires on July 1, 2055. The license contains several conditions, including environmental studies and projects initiated by state and federal agencies and the Kalispel Tribe of Indians. All projects and studies are related to Box Canyon Dam and its reservoir and include the protection, mitigation, and enhancement of fish, wildlife, recreation, erosion, water quality, and cultural preservation. Capitalized projects have included upgrade of the Box Canyon Project turbines, spillway gate modification for total dissolved gas abatement, and construction of fish passage facilities. 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 for license measures, 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).

**Kalispel Tribe of Indians** - The Box Canyon license includes language authorizing the District to use lands in the Kalispel Indian Reservation. Under a contract signed in 2007, payment to the Kalispel Tribe for use of their lands is based on costs to produce power at Box Canyon Dam. The Kalispel Tribe receives their payment in electrical energy, the amount of which is based on a formula using Box Canyon Dam production costs. The Kalispel Tribe chooses on an annual basis, in advance of the calendar year, to use the energy, require the District to sell the energy to a third party on the Kalispel Tribe’s behalf at market prices, or require the District to purchase the power at cost of production. For 2022 and 2021, the Kalispel Tribe chose to have the District purchase the power at generation cost. Power sales on the Kalispel Tribe’s behalf totaled \$244,960 and \$244,999 in 2022 and 2021, respectively.

In 2019, the District executed an off-license agreement with the Kalispel Tribe to provide payments for alternative mitigation activities in lieu of fish passage construction and license measures regarding water quality. The off-license agreement was referenced as part of an amendment to the Box Canyon FERC license, and became effective upon FERC’s approval of the amendment in December 2021. The District accrued the first payment of \$2,000,000 due to the Kalispel Tribe during 2019 and accrued an additional \$600,000 during 2020 for additional water-quality measures under the off-license agreement. The District released \$2.3 million to the Kalispel Tribe in February 2022 and made the second annual payment in December 2022 of \$2.3 million. Payments range from \$1.5 million to \$3.1 million over 25 years. The agreement also includes a \$10 million contribution for upstream fish passage facilities at Albeni Falls Dam, which is a federally-owned hydroelectric project directly upstream of Box Canyon Dam. This payment will be made upon the completion of certain construction conditions, or December 2027, whichever occurs earlier. As these payments are made to an outside entity for projects that are not directly controlled by the District, the District has present valued the payments over the 25-year agreement as a regulatory asset and licensing costs liability, the balance of which was \$38,034,968 and \$33,926,058 as of December 31, 2022 and 2021, respectively.

**Sullivan Creek Project** - The Electric System’s Sullivan Creek Project consists of Sullivan Creek Dam and Mill Pond Dam, an abandoned conduit, a forebay, and an empty powerhouse, and is currently used solely for water storage. The Sullivan Creek Project’s 50-year FERC license expired in September 2008, and the District subsequently entered into a negotiated license surrender process outlining continued operation of the Sullivan Dam as a water storage facility and completion of various environmental projects to protect and enhance fish and wildlife habitat. Through a settlement agreement between Seattle City Light, the District, and other related parties, Seattle City Light completed the removal of Mill Pond Dam in 2020 and is currently performing other restoration and environmental work as part of the relicensing conditions for Boundary Dam. Once further monitoring and procedures per the terms and conditions of the negotiated agreement and FERC Surrender Order are met and approved by FERC, which is expected in the coming years, the District will become eligible to receive a 30-year United States Forest Service (USFS) permit to continue to operate Sullivan Dam as a water storage facility.

Concurrent with the license surrender process, the District contracted with Washington State Department of Ecology to sell certain Sullivan-related water rights to the State of Washington through the Department of Ecology’s Office of Columbia River, Columbia River Water Management Program. In exchange for the release of water from Sullivan Lake at designated times and amounts over the expected USFS permit 30-year life, the Department of Ecology Office of Columbia River paid the District \$14 million. Proceeds are expected to finance Sullivan Creek Project capital and operating, maintenance, and environmental expenditures for the entirety of a USFS 30-year license term to be issued after decommissioning of the project is fully complete. The proceeds are recorded as unearned revenue and are being amortized annually

in an amount equal to the net cash outflow for Sullivan Project-related activities each year. The monies are restricted to use for Sullivan Creek Project-related expenditures and reflected on the statement of net position within the contract security liability category.

Because there is no operating value for the District in owning the Sullivan Project assets, the District reports the net revenues and expenses as nonoperating. Asset values are recorded net of accumulated depreciation as nonutility plant. The District reports no remaining license surrender liability.

**Clark Public Utility District** – In October 2022, the District executed a long-term agreement with Public Utility District No. 1 of Clark County (Clark) for the output of Box Canyon generation. The 15-year agreement, which begins January 1, 2026, sells the output of Box Canyon as it is generated to Clark. The power is sold at cost that includes both a fixed-price component and a variable-cost component adjusted by inflation, plus an environmental adder per megawatt generated. Clark assumes risk associated with both annual water levels and market price fluctuations.

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

**Note 9 - Northwest Open Access Network**

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

In December 2020, NoaNet issued Telecommunications Network Revenue Bonds in the amount of \$24,775,000. Proceeds from the bonds were used to refund all outstanding debt, including all Member Agreements, leaving \$10 million available for upcoming capital projects. The bonds were structured with level debt service with annual payments from 2021 through 2030. Yields on the bonds ranged from 0.591% in 2021 to 2.120% in 2030. The all-in interest cost was 1.90%. The District's 5.76% guarantee share of the debt outstanding of \$20,135,000 as of December 31, 2022 is \$1,159,776.

In 2021, NoaNet reported a net operating loss of \$2,748,111, \$175,088 of nonoperating expense, and a total decrease in net position of \$2,923,199. The 2022 audited financial statements were not available at the time of issuance of this report.

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

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

**Note 10 - Grants**

**Washington State Community Development Block Grant (CDBG)** – In December 2019, Washington State Department of Commerce awarded the Town of Metaline Falls, with the District as sub-recipient, a CDBG grant to replace approximately 5,100 feet of water piping for the Metaline Falls water system project. The District expended \$35,451 and \$40,146 for the years ended December 31, 2022 and 2021, respectively.

**Washington State Department of Health, Drinking Water State Revolving Fund** – In October 2019, Washington State Department of Health issued a loan to the District in the amount of \$248,500 for a water filtration system for the Riverview water system. 100% of this loan was forgiven and is recorded as grant revenue in 2021. An additional loan of \$82,000 was extended in 2021, with 30% of the loan forgiven. The filtration system was completed and became operational during 2021. Total spending on the project was \$592,544, with a total of \$273,100 in grant revenue recognized for the year ended December 31, 2021.

**American Rescue Plan Act** – During 2021, Pend Oreille County was awarded Coronavirus Local Fiscal Recovery funds under the American Rescue Plan Act to aid in COVID-19 related hardships. In October 2021, Pend Oreille County awarded the District as a subrecipient \$100,000 to aid qualifying customers in utility payment assistance. The District recognized \$50,724 and \$49,276 in customer payments and associated grant revenue in 2022 and 2021, respectively.

**Federal Emergency Management Agency (FEMA)** – In September 2020, a severe windstorm affected the region, causing damage to District infrastructure facilities. The storm was declared a FEMA event in February 2021. FEMA declared an additional FEMA event related to a winter snow and wind storm occurring in January 2021. FEMA funds 75% of the cost to repair damaged facilities, and the Washington State Military Department funds 12.5%. In 2021, the District recognized \$145,665 in grant revenue for the September 2020 storm and \$85,920 for the January 2021 storm. During 2022, the District recognized an additional \$6,966 in grant revenue for the January 2021 storm.

Schedule of Proportionate Share of Net Pension Liability (Asset) as of June 30

	Employer's proportionate share of the net pension liability (asset)		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
2022	\$ 1,400,008	\$ (2,432,144)	\$ 8,199,770	\$ 8,199,770	0.050281%	0.065578%
2021	641,587	(6,725,481)	8,074,948	8,074,948	0.052536%	0.067514%
2020	1,930,499	910,825	8,300,145	8,300,145	0.054680%	0.071217%
2019	2,291,063	747,291	8,362,937	8,362,937	0.059580%	0.076934%
2018	2,874,473	1,410,782	8,571,106	8,571,106	0.064363%	0.082627%
2017	3,197,754	3,011,819	8,498,422	8,498,422	0.067391%	0.086683%
2016	4,115,660	4,944,091	9,167,431	9,167,431	0.076635%	0.098196%
2015	4,320,539	3,811,237	9,471,100	9,471,100	0.082596%	0.106666%
2014	3,939,563	2,035,268	8,618,199	8,618,199	0.078204%	0.100688%

	Employer's proportionate share of net pension liability (asset) 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
2022	17.07%	29.66%	76.56%	106.73%
2021	7.95%	83.29%	88.74%	120.29%
2020	23.26%	10.97%	68.64%	97.22%
2019	27.40%	8.94%	67.12%	97.77%
2018	33.54%	16.46%	63.22%	95.77%
2017	37.63%	35.44%	61.24%	90.97%
2016	44.89%	53.93%	57.03%	85.82%
2015	45.62%	40.24%	59.10%	89.20%
2014	45.71%	23.62%		

Schedule of Employer Contributions as of December 31

	Statutorily or contractually required contributions		Contributions in relation to the statutorily or contractually required contributions		Contribution deficiency (excess)	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
2022	\$ 312,392	\$ 529,487	\$ (312,392)	\$ (529,487)	\$ -	\$ -
2021	351,024	583,306	(351,024)	(583,306)	-	-
2020	397,440	656,971	(397,440)	(656,971)	-	-
2019	406,800	631,957	(406,800)	(631,957)	-	-
2018	434,106	643,488	(434,106)	(643,488)	-	-
2017	416,156	579,483	(416,156)	(579,483)	-	-
2016	412,225	538,399	(412,225)	(538,399)	-	-
2015	405,744	520,400	(405,744)	(520,400)	-	-
2014	372,964	461,531	(372,964)	(461,531)	-	-

	Covered employer payroll		Contributions as a percentage of covered employee payroll	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
2022	\$ 8,325,267	\$ 8,325,267	3.75%	6.36%
2021	8,112,952	8,112,952	4.33%	7.19%
2020	8,295,085	8,295,085	4.79%	7.92%
2019	8,202,549	8,202,549	4.96%	7.70%
2018	8,581,426	8,581,426	5.07%	7.52%
2017	8,511,531	8,511,531	4.88%	6.80%
2016	8,642,042	8,642,042	4.83%	6.31%
2015	9,298,258	9,298,258	4.32%	5.54%
2014	9,241,367	9,241,367	4.02%	4.98%

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

Electric System - Revenue, customer and energy statistics for the years ended December 31					
	2022	2021	2020	2019	2018
Average number of customers					
Residential	8,950	8,785	8,585	8,435	8,307
Commercial	852	851	849	849	842
Industrial	12	12	14	12	9
Other	82	82	82	81	80
Total	9,896	9,730	9,530	9,377	9,238
Revenues from sale of energy (000s)					
Residential	\$ 14,160	\$ 13,096	\$ 11,119	\$ 10,821	\$ 10,283
Commercial	3,748	3,575	2,868	3,057	2,935
Industrial	21,052	3,597	16,685	34,670	33,767
Other	2,030	2,029	30	30	30
Total District customers	40,990	22,297	30,702	48,578	47,015
Intersystem sales	193	164	165	141	198
Sales for resale	37,006	30,178	11,645	4,604	4,574
Total energy sales	78,189	52,639	42,512	53,323	51,787
Other operating revenues	2,280	1,506	1,466	1,559	1,099
Total	\$ 80,469	\$ 54,145	\$ 43,978	\$ 54,882	\$ 52,886
Energy (MWh)					
Residential	164,534	153,417	157,656	153,095	145,100
Commercial	53,088	51,264	48,756	51,529	49,370
Industrial	266,432	67,194	305,440	751,930	802,274
Other	145	145	145	145	145
Total District customers	484,199	272,020	511,997	956,699	996,889
Intersystem sales	2,109	1,647	2,117	1,710	3,062
Sales for resale	968,115	932,826	477,790	138,456	160,056
Total sales	1,454,423	1,206,493	991,904	1,096,865	1,160,007
Peak demand (MW)	153	76	142	160	162
Energy requirements (MWh)					
Retail sales	486,308	273,667	514,114	958,409	999,951
Sales for resale	968,115	932,826	477,790	138,456	160,056
Total sales	1,454,423	1,206,493	991,904	1,096,865	1,160,007
Electric System losses	26,337	27,653	17,842	26,583	23,710
Total energy requirements	1,480,760	1,234,146	1,009,746	1,123,448	1,183,717
Energy resources (MWh)					
Box Canyon Project	450,197	475,133	444,275	460,575	451,656
Boundary Project	382,741	353,935	340,151	369,066	368,974
Bonneville and other sources	647,822	405,078	225,320	293,807	363,087
Total energy resources	1,480,760	1,234,146	1,009,746	1,123,448	1,183,717

Electric System - Senior lien parity debt service coverage for the years ended December 31,					
	2022	2021	2020	2019	2018
Operating revenues (000s)					
Energy sales	\$ 78,189	\$ 52,639	\$ 42,512	\$ 53,323	\$ 51,787
Other	2,280	1,506	1,466	1,559	1,099
Total operating revenues	80,469	54,145	43,978	54,882	52,886
Operating expenses (1)					
Power costs	53,289	31,931	29,101	34,410	33,313
Operations and maintenance	6,633	6,339	6,862	6,231	6,511
Administrative and general	3,554	3,452	3,753	3,825	4,558
Taxes	2,448	1,380	1,787	2,785	2,721
Pension Expense	(744)	(1,739)	(770)	(727)	(975)
Total operating expenses	65,180	41,363	40,733	46,524	46,128
Investment income (2)	422	21	83	266	229
Net revenue available for debt service	15,711	12,803	3,329	8,624	6,987
Funds transferred to rate stabilization fund	-	-	-	(3,200)	(2,200)
Net revenue for debt service coverage	15,711	12,803	3,329	5,424	4,787
Senior lien debt service	974	976	976	1,178	2,053
Net revenue available for capital	\$ 14,737	\$ 11,827	\$ 2,353	\$ 4,246	\$ 2,734
Debt service coverage ratio (3)	16.13x	13.12x	3.41x	4.60x	2.33x

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

Box Canyon Production System - Senior lien parity debt service coverage for the years ended December 31,					
	2022	2021	2020	2019	2018
Operating revenues (000s)					
Energy sales					
Electric System	\$ 17,020	\$ 13,846	\$ 18,096	\$ 19,191	\$ 18,304
Tribal use of lands	245	245	230	230	230
All other (1)	7	7	7	7	6
Total operating revenues	17,272	14,098	18,333	19,428	18,540
Operating expenses (2)					
Power costs	65	80	217	176	114
Operations and maintenance	7,357	6,017	5,294	6,683	5,105
Administrative and general	1,756	1,854	2,602	2,458	2,937
Taxes	103	108	100	103	103
Pension Expense	(324)	(757)	(336)	(317)	(318)
Total operating expenses	8,957	7,302	7,877	9,103	7,941
Investment income	387	23	161	570	552
Other nonoperating (3)	507	568	628	687	1,610
Net revenue available for debt service (4)	9,209	7,387	11,245	11,582	12,761
Senior lien debt service (5)	10,091	10,167	10,320	9,398	9,916
Net revenue available for capital	\$ (882)	\$ (2,780)	\$ 925	\$ 2,184	\$ 2,845
Debt service coverage ratio (6)	0.91x	0.73x	1.09x	1.23x	1.29x

(1) "All other" includes miscellaneous revenue such as lease of project lands.

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

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

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

(5) Senior lien debt service includes the 2008 CREB bonds, the 2009 bonds, the 2010 bonds, the 2012 CREB bonds, the 2018 bonds, and the 2019 bonds, as applicable.

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

Community Network System - Senior lien parity debt service coverage for the years ended December 31,					
	2022	2021	2020	2019	2018
Operating revenues (000s)					
Broadband Sales	\$ 2,604	\$ 2,573	\$ 2,431	\$ 2,194	\$ 2,059
Other	812	1,115	1,063	562	755
Total operating revenues	3,416	3,688	3,494	2,756	2,814
Operating expenses (1)					
Operations and maintenance	1,094	991	1,016	921	877
Administrative and general	415	261	315	243	186
Taxes	20	28	23	15	18
Pension Expense	(84)	(196)	(87)	(82)	11
Total operating expenses	1,445	1,084	1,267	1,097	1,092
Investment income (2)	31	1	3	9	5
Net revenue available for debt service	2,002	2,605	2,230	1,668	1,727
Senior lien debt service (3)	420	420	420	420	420
Net revenue available for capital	\$ 1,582	\$ 2,185	\$ 1,810	\$ 1,248	1,307
Debt service coverage ratio (4)	4.77x	6.20x	5.31x	3.97x	4.11x

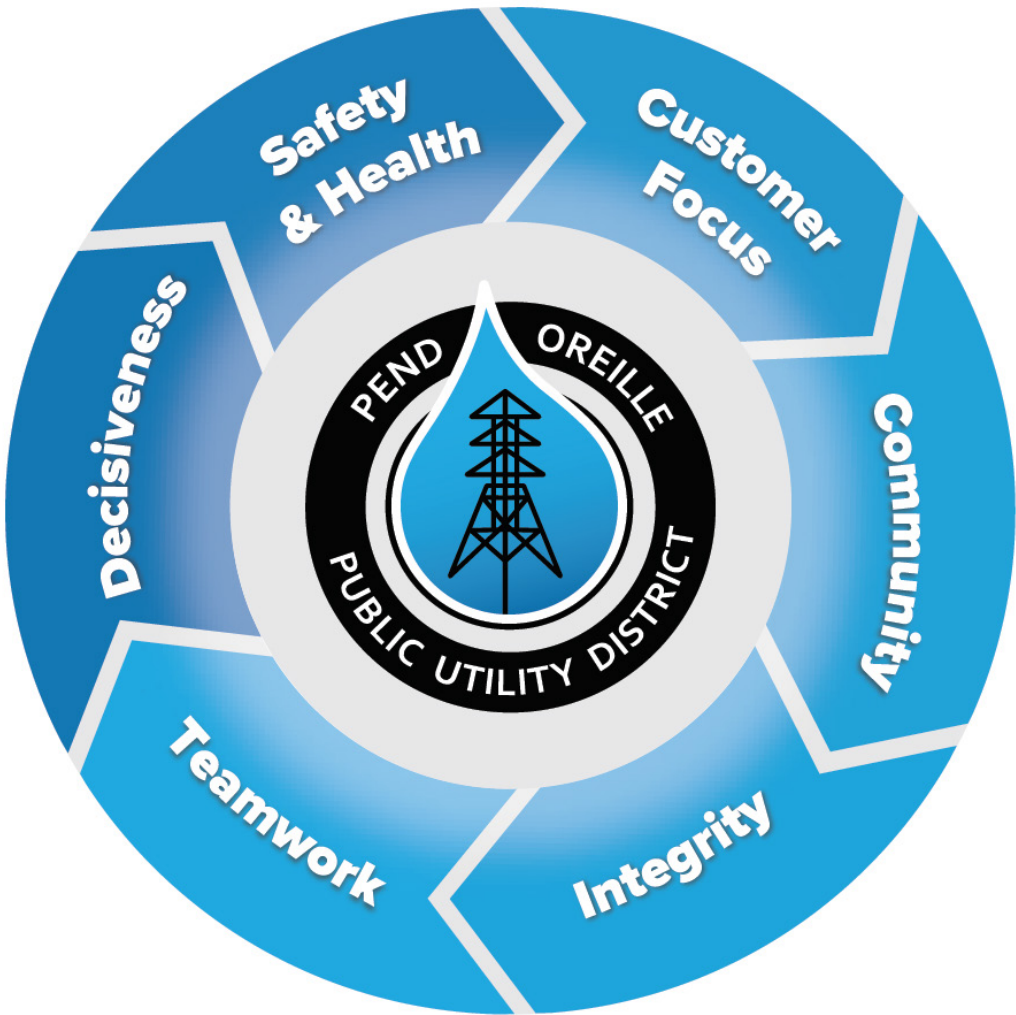
(1) Total operating expenses exclude depreciation for purposes of determining parity debt service coverage ratios.

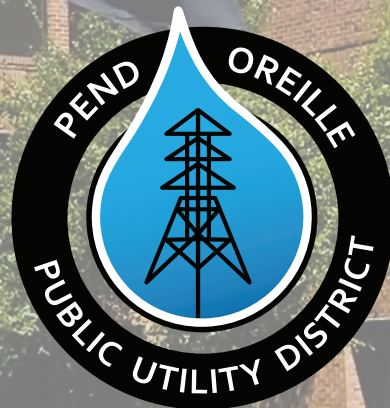
(2) Investment income varies depending on many factors, including unrealized gains and losses on long-term investments.

(3) Senior lien debt service includes the 2017 bonds.

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

Date of organization	November 1936
Nature of business	A municipal corporation supplying public utility services in Pend Oreille County, Washington
Board of Commissioners	
President	Curtis J. Knapp
Vice President	Richard A. Larson
Secretary	Joseph B. Onley
Key District Management	
General Manager	F. Colin Willenbrock
General Counsel	Tyler Whitney
Director of Finance/Auditor	April Owen
Director of Customer Services/Treasurer	Sarah Holderman
Director of Utility Services	Kevin Conway
Director of Operations	Chris Jones
Director of Power Production	Bryant Kramer
Director of Human Resources	Suzie Wrbelis
Corporate Office	P.O. Box 190 130 N. Washington Ave. Newport, Washington 99156 (509) 447-3137 <a href="http://www.popud.org">www.popud.org</a>
Paying Agent and Registrar Information	U.S. Bank National Association 111 Fillmore Avenue East St. Paul, Minnesota 55107-1402





# 2022

# ANNUAL REPORT

Quality Service at Low Cost