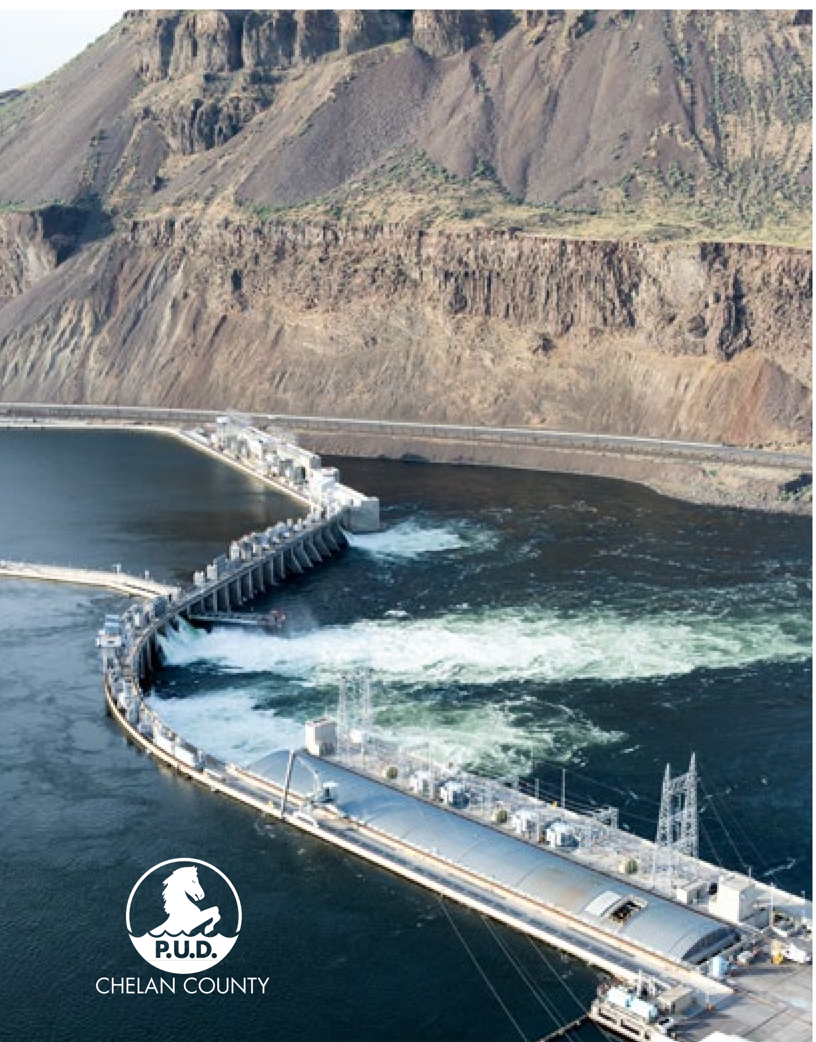
MAKING CONNECTIONS

CHELAN COUNTY PUBLIC UTILITY DISTRICT
ANNUAL REPORT ▪ 2018



P.U.D.
CHELAN COUNTY

ABOUT US

VISION

To be valued as an innovative, trusted and highly respected public utility for generations to come.

MISSION

To provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

OUR VALUES

Safety
Protect public and employee health and safety

Stewardship
Act on behalf of customer-owners, protecting public resources entrusted to us

Trustworthiness
Competence and integrity

Operational Excellence
High-quality innovative work execution

Public Utility District No. 1 of Chelan County was created by a vote of the people in 1936 and delivered its first power in 1947. The PUD is governed by a locally elected five-member Board of Commissioners. The general manager uses the policies and guiding principles set by the commission to generate and deliver electricity from our three dams to utilities that serve customers across the Pacific Northwest as well as to more than 51,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the District at P.O. Box 1231, Wenatchee, WA 98807.

NOTE: The statements and information on pages 1-10 of the 2018 Annual Report are provided for general information only. They are not intended for, and should not be relied upon, for making investment decisions by current or prospective investors. Official statements can be found at the District's website, **www.chelanpud.org.**

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Connected to performance

STEVE WRIGHT
GENERAL MANAGER

REFLECTING ON ANOTHER SOLID YEAR

Chelan County PUD achieved yet another successful year in 2018 with more than $100 million of net revenue. This was $32.5 million more than we budgeted and can be used to continue to bring long-term value to our community. For the past four years, we've experienced the best net revenue years in our history.

In addition, we've had great success meeting one of our strategic priorities to reduce debt. Last year, we decreased debt by $24 million, in turn realizing a debt ratio below 35 percent, one year ahead of our goal. Our prudent financial planning has earned the PUD an upgraded credit rating of AA+ from Standard & Poor's. We are among the top five financially rated consumer-owned utilities in the U.S.

Looking forward, however, we anticipate that with lower wholesale prices we will not be able to generate the same high levels of revenue. We are carefully considering how much revenue we should plan for over the next 10 years. With potential changes in revenue, we're also examining how this could impact customers and how best to maintain low, stable rates.

Meanwhile, the utility has seen an influx of high density electricity customers, including cryptocurrency miners. After considerable thought and deliberations, in 2018 we developed a new cryptocurrency rate for these businesses, which are potentially transient customers and require enormous amounts of power. Our new rate ensures our rates and policies reflect actual costs and a neutral economic impact on our existing customers.

> "97% OF OUR CUSTOMERS ARE "SATISFIED" OR "VERY SATISFIED" WITH THE PUD.

As part of our 2015-2019 Strategic Plan we committed to reinvest in our physical assets and people. Last year, we made substantial investments in our hydropower assets. We have refurbished and returned to service two generating units – one at each of the Rock Island and Rocky Reach dams – to provide long-term value. We also completed a multi-year governor controls upgrade at Rock Island. At our Chelan Powerhouse we completed maintenance including circuit breaker replacement, electrical system upgrades, surge tank coating and penstock inspection.

Moving forward, in 2019 one of our areas of emphasis will be 2020-2024 strategic planning. The process includes engaging with stakeholders at community meetings, through surveys and with other outreach. The planning covers six areas: long-term rate planning, growth and economic development, aesthetic considerations, our Public Power Benefit program, Rock Island relicensing and electric wholesale and retail sales. This process reinforces our focus on producing the best value for the most people for the longest period of time.

In 2019, the PUD also will explore ways of improving how we deliver services to our customers through a new consolidated service center and administrative facility. It would provide a centralized location, increase efficiencies and reduce traffic congestion in the downtown Wenatchee area. Our customer-owners will be closely involved in the planning of a new facility.

We are consistently guided by our mission to provide sustainable, reliable utility services that enhance the quality of life in Chelan County. We're proud of the achievements of the past year and look forward to another active year ahead.

Connected leadership

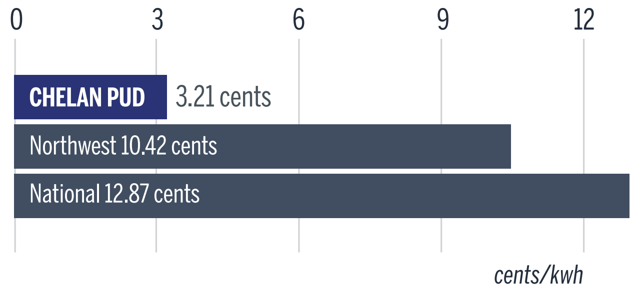
Chelan County residents elect our Board of Commissioners to govern the District. Ideas and comments from customer-owners and the community are welcome at board meetings on the first and third Mondays of the month and anytime at **contactus@chelanpud.org**.

FROM LEFT: DENNIS BOLZ; RANDY SMITH; GARRY ARSENEAULT; ANN CONGDON; AND STEVE MCKENNA

3.2¢

Chelan PUD average residential rate per kilowatt hour in 2018

No electric rate increase for **7 years**



ELECTRIC SYSTEM RELIABILITY

TARGET IS 99.98%

2018
99.99%
ASAI
(Average System Availability Index)

2017
99.98%

51,381
Number of retail electric customers

16,257
Number of fiber end-user connections

6,708
Number of water/wastewater customers

Bond ratings

Fitch Ratings AA+, stable

Standard & Poor's **AA+, stable**

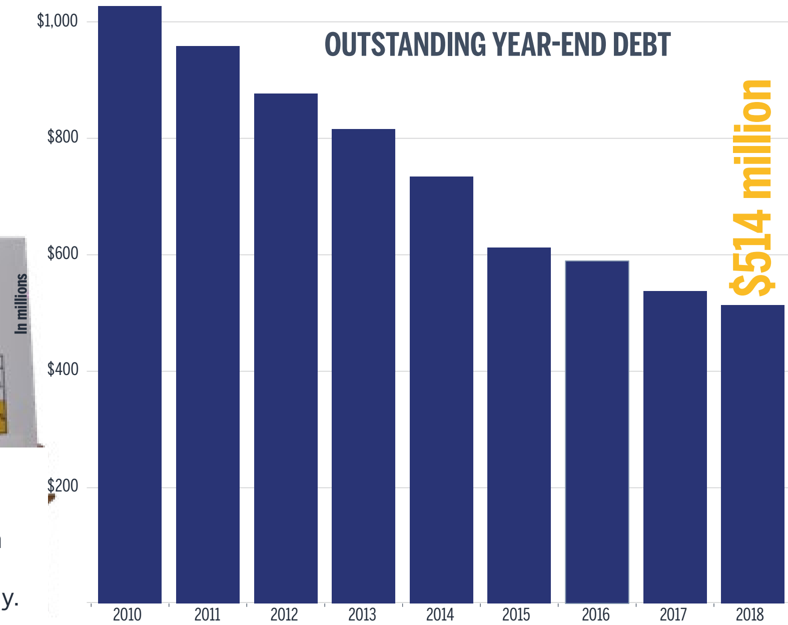
Upgraded in May 2018 for "...rapidly declining leverage...very strong risk management and financial policies, its experienced management team, and its extremely low-cost power supply."

Moody's Investors Service Aa3, stable

As of Dec. 31, 2018

Chelan PUD has **cut debt in half** since 2010

Heather Irelan, lead Treasury analyst, and Kelly Boyd, chief financial/risk officer, celebrate with board members on reaching a debt ratio below 35 percent – a year early.



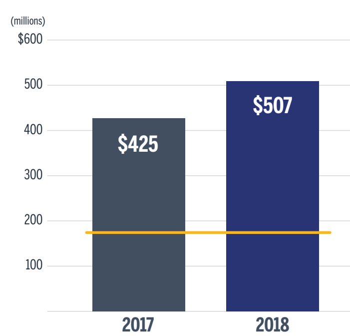
We measure the District's financial strength in four ways. **Chelan PUD EXCEEDED** targets for all four in 2018.

Target Line

FINANCIAL LIQUIDITY

Target: Minimum of $175 million

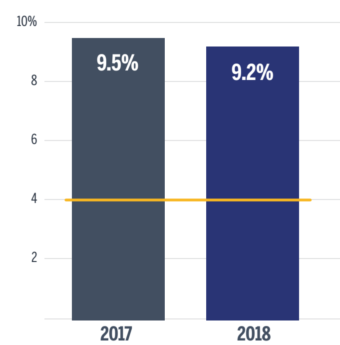
Represents cash reserves to cover risks and provide additional financial stability



RATE OF RETURN

Target: Greater than 4 percent

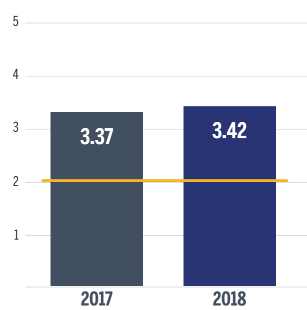
Provides income to replace assets over time and meet obligations in unusual conditions



DEBT SERVICE COVERAGE

Target: Greater than 2.0

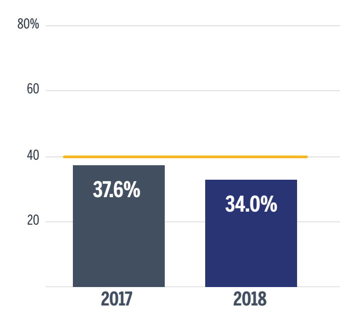
Demonstrates the ability to meet debt obligations even under unusual conditions



DEBT RATIO

Target: Less than 40 percent for 2018

Reflects the percentage of utility assets financed by debt



Paying down debt

PUD finances got stronger as we paid down another $24 million in debt and reached our goal a year early of debt ratio below 35 percent.

LOOKING AHEAD

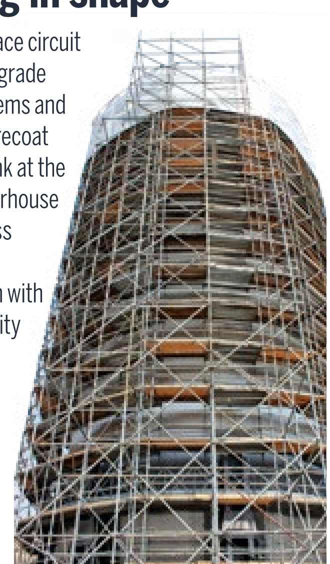
Chelan PUD reached terms on 19 acres of property in north Wenatchee at Olds Station to preserve the option of building a new, combined service and operations center. Three years of analysis found that a new hub offers the best customer service at the least cost over time and improves safety. A decision on moving ahead is expected in spring 2019.

Hydro investments

Unit B6 in the first Rock Island powerhouse was modernized and turbine C8 at Rocky Reach was repaired and are back in service.

Staying in shape

Work to replace circuit breakers, upgrade electric systems and inspect and recoat the surge tank at the Chelan Powerhouse was a success due to close collaboration with the community and PUD employees.



Diving into data

We formed the Hydropower Research Institute as a Public Power Benefit project to help hydro owners across the globe with digital transformation.

"IT IS REALLY EXCITING THAT CHELAN COUNTY WILL BE A PLACE WHERE HYDRO PROJECT OWNERS, RESEARCHERS, STUDENTS, MANUFACTURERS AND SUPPLIERS CAN COME TOGETHER TO MOVE THE INDUSTRY FORWARD IN THE DIGITAL TRANSFORMATION."

- KIRK HUDSON
Generation & Transmission managing director

SERVING CUSTOMERS

- We connected more than 1,000 new homes and businesses with power
- New rates and policies for cryptocurrency mining are in place to serve an emerging industry while protecting existing customers from financially unsustainable growth
- Over 900 more locations have access to PUD fiber and the super-fast internet, TV and phone services offered by retail providers

Clean, **green**, carbon-free hydropower

Investing in our hydropower assets is our No. 1 strategic priority.

Chelan PUD's three dams generate environmental, economic and recreation value for customers-owners, Chelan County and the region.

ROCKY REACH DAM

6.3 MILLION megawatt hours generated

11 generators

1,300 megawatt capacity*

Repairs to cracked turbine components on the four largest units continue, with one unit returned to service. Lessons learned will shorten repairs on the remaining units to 14 months each, with completion scheduled for 2021.

Our federal license to operate the dam runs through 2052.

ROCK ISLAND DAM

2.7 MILLION megawatt hours generated

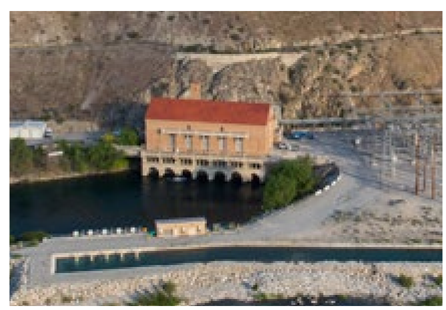
2 powerhouses

18 generators (plus 1,000 kW house unit)

629 megawatt capacity*

A multi-year governor controls update was finished at Powerhouse 2, as was modernizing unit B6 in Powerhouse 1. Plans are to finish rehabbing Powerhouse 1 units by 2022 and start rehab of the eight bulb turbines in Powerhouse 2 in 2021.

Our federal license to operate the dam runs through 2028.



LAKE CHELAN DAM

.4 MILLION megawatt hours generated

2 generators

59 megawatt capacity*

Circuit breakers replaced, electrical system upgrades, surge tank coating and penstock inspection were completed in 2018.

Our federal license to operate the dam runs through 2056.

*GENERATOR NAMEPLATE CAPACITY

Going paperless

Powerpay gives customers the convenience of getting their bill by email and saves paper and printing.

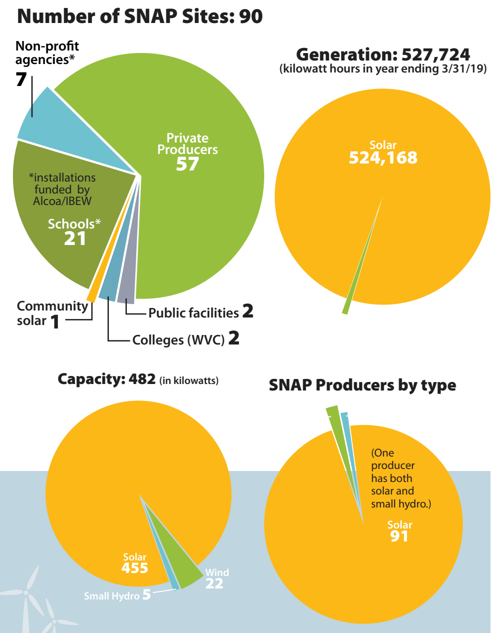
15,736

PUD customers are enrolled

Hydro supports wind and solar

3 solar producers joined Chelan PUD's Sustainable Natural Alternative Power (SNAP) program in the past year. Together they added 35.6 kilowatts of capacity to SNAP, which is now in its 17th year. Generation for 2017-18 totaled 501,953 kilowatt hours, enough to power 23 homes.

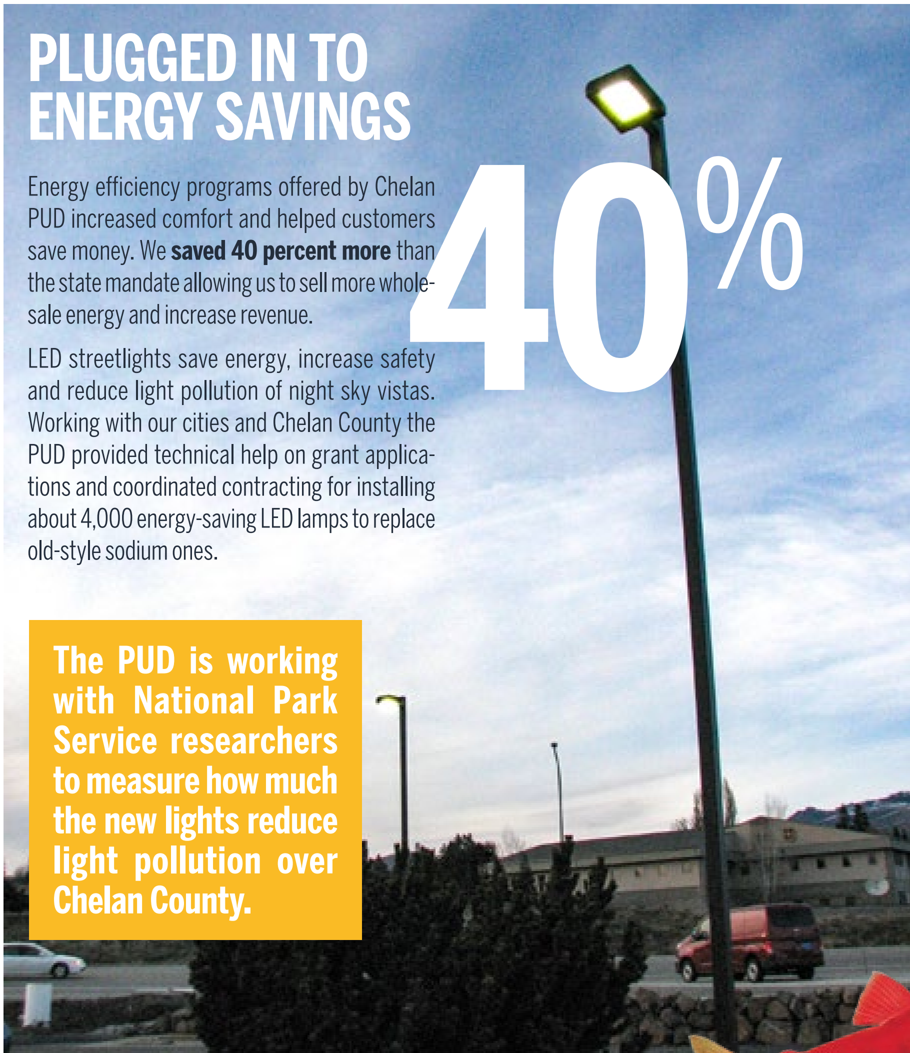
Chelan PUD owns shares in Nine Canyon Wind Project near Kennewick, WA, equal to capacity of about 8 MWs.



CONNECTING WITH OUR COMMUNITY

We are customer-owned and our mission is to deliver utility services that enhance the quality of life in Chelan County.

More than 40 events supported by Chelan PUD offered employees a direct connection with nearly 22,000 people in 2018.



PLUGGED IN TO ENERGY SAVINGS

40%

Energy efficiency programs offered by Chelan PUD increased comfort and helped customers save money. We **saved 40 percent more** than the state mandate allowing us to sell more wholesale energy and increase revenue.

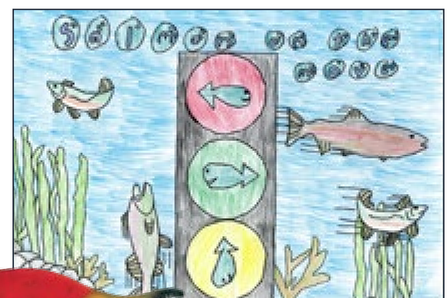
LED streetlights save energy, increase safety and reduce light pollution of night sky vistas. Working with our cities and Chelan County the PUD provided technical help on grant applications and coordinated contracting for installing about 4,000 energy-saving LED lamps to replace old-style sodium ones.

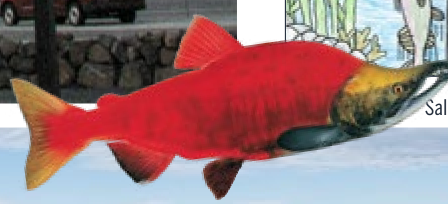
The PUD is working with National Park Service researchers to measure how much the new lights reduce light pollution over Chelan County.

Connected to nature

We are dedicated stewards of the resources touched by our hydropower operations.

- State and federal agencies and tribes have agreed that innovative fish programs result in No Net Impact from our Columbia River dams on salmon and steelhead swimming past. We continue to collaborate with them on the Habitat Conservation Plans that improve fish passage, protect habitat and manage hatchery programs.
- A focus on helping lamprey move past Rocky Reach Dam resulted in 98-percent passage for adult lamprey that enter the fish ladder at the dam and are traveling on up the Columbia to spawn in streams. That's the best passage rate on the Columbia River.



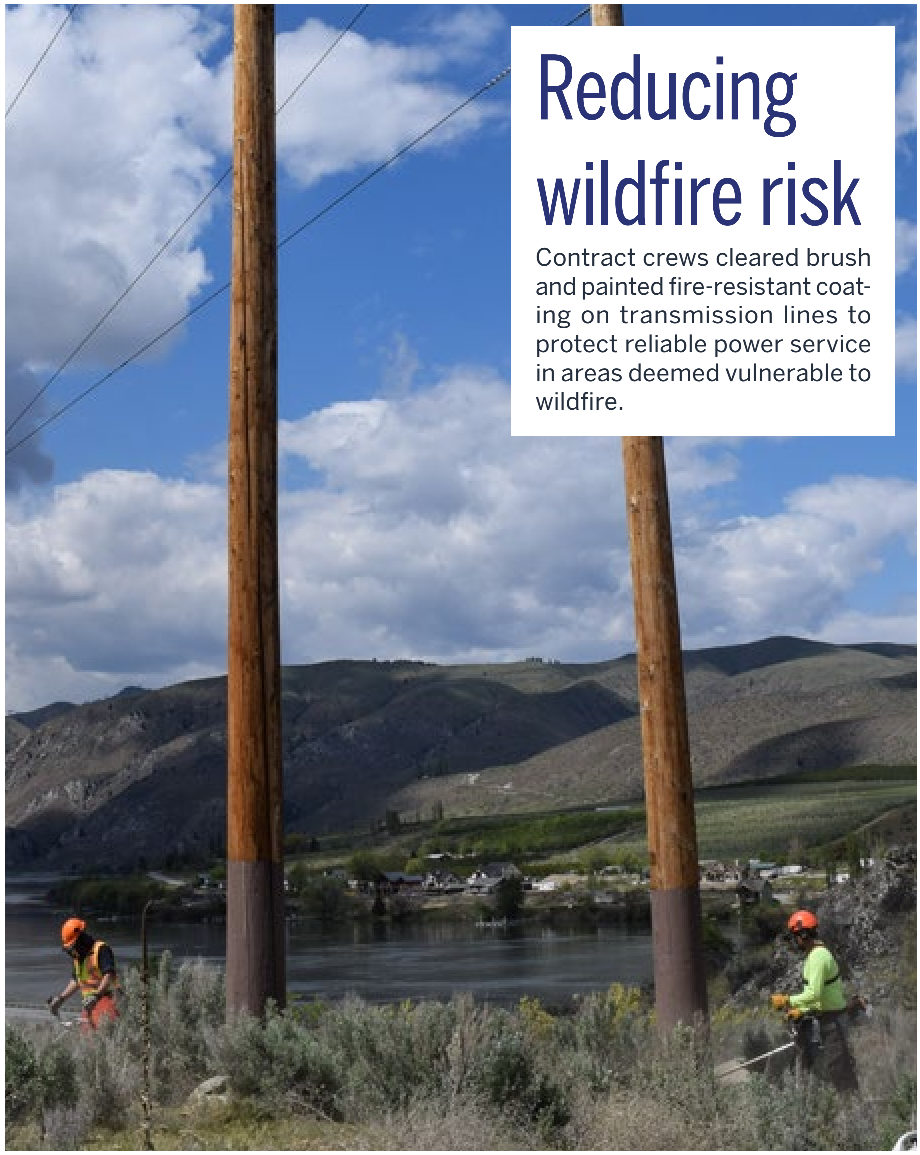


Salmon illustrations by Joseph Tomelleri

CLEAN, GREEN & CARBON FREE

9.4

million megawatt hours of clean hydropower generated at our three dams in 2018.



Reducing wildfire risk

Contract crews cleared brush and painted fire-resistant coating on transmission lines to protect reliable power service in areas deemed vulnerable to wildfire.

Broadband benefit

75 percent of Chelan County has broadband access. Our Public Power Benefit program will extend access to 85 to 90 percent of the county.

Power to thrive

We continued design for new substations in Leavenworth and on the north shore of Lake Chelan and secured locations for future substations in Entiat and the industrial area just north of Wenatchee. The work will make sure Chelan County communities have the carbon-free power they need to thrive – with housing, jobs and great quality of life.

Report of Independent Auditors

To the Board of Commissioners of Public Utility District No. 1 of
Chelan County, Washington

We have audited the accompanying financial statements of Public Utility District No. 1 of Chelan County, Washington (the "District"), which comprise the Statements of Net Position as of December 31, 2018 and 2017, and the related Statements of Revenues, Expenses and Changes in Net Position and of Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Public Utility District No. 1 of Chelan County, Washington as of December 31, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 805 SW Broadway, Suite 800, Portland, OR 97205
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com/us

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 13 through 20 and the Required Supplementary Information on pages 58 through 59, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Combining Schedule of Revenues, Expenses and Changes in Net Position, of Assets and Deferred Outflows of Resources and Liabilities, Deferred Inflows of Resources and Net Position, and of Cash Flows on pages 61 through 65, as well as supplemental disclosures of telecommunication activities in Note 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplementary information presented as Continuing Disclosure on pages 68 through 82 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Portland, Oregon
April 19, 2019

The following discussion provides an overview and analysis of the financial activities of Public Utility District No. 1 of Chelan County (the District) for the years ended December 31, 2018 and 2017. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- The District produced a positive change in net assets of $105 million during 2018, $33 million more than budget for the year and consistent with the prior year's results of $105 million. The District continued to achieve strong operating results while meeting strategic priorities to invest in utility assets and employees, pay down debt and continue Public Power Benefit projects. The renewable, carbon-free benefits of the hydropower the District generates and sells on the wholesale market helped support revenue. Long-term contract proceeds in excess of budgeted amounts were a primary driver of the better-than-budgeted $105 million bottom-line results. Lower-than-expected operating expenses and increased interest earnings made additional contributions.
- In 2018, the District achieved another one of its goals – a debt ratio below 35 percent. The goal was achieved a year ahead of schedule. The target was set to reduce the debt ratio to less than 35 percent by 2019. It is one of the four key measures established as indicators of the District's financial strength. The District's consistently strong financial results already exceed the other targets. The District has cut its debt nearly in half since 2010 when it had over $1 billion in debt outstanding. The District has followed an aggressive debt reduction plan by accelerating debt repayments and paying for capital expenditures out of cash reserves, while maintaining its strong financial position. Reducing debt is a strategic priority and responds to customer-owners' request that it be paid down. Meeting this goal benefits customer-owners by keeping utility rates low. A lower debt balance gives the District flexibility to meet financial challenges such as paying for repairs of aging dam turbines and generators and managing for lower wholesale market prices. Credit rating agencies have responded by raising the District's credit rating to reflect the District's solid financial position.
- S&P Global Ratings (S&P) upgraded the District's Consolidated System debt to AA+/Stable from AA/Stable. This rating puts the District in the top five public utilities highly rated by S&P. The AA+/Stable rating matches one received from Fitch Ratings in 2008 and reaffirmed in 2017. Key strengths included the District's very strong risk management and financial policies, rapidly declining debt, improved cash position/liquidity, experienced management team and extremely low-cost power. S&P noted that the District achieved these accomplishments without a retail rate increase in six years. Low operating costs from the District's hydropower generation also contributed to the positive review, and S&P commented on the District's surplus generation hedging practices as beneficial to reducing the impact of energy market volatility on the District's revenues.
- In 2018, repairs were completed on one of four large units at Rocky Reach Dam, and the unit was safely returned to commercial operation. This was a major milestone and accomplishment. Lessons learned will help speed long-term repairs of the same design flaw on the other three units. The discovery of a crack in

a servo rod of one of the large units in 2013 launched the project. Long-term repairs on the first unit, C-8, now back in service, started in June 2015. The second unit, C-9, has undergone similar long-term repairs and is nearing completion. Long-lead parts for the third unit, C-10, have been received, and long-lead parts for the fourth unit, C-11, have been ordered. The repairs on the remaining units are estimated to take 14 months, and C-8 is expected to run reliably for its 30-year design life. The District confirmed insurance coverage for lost revenue and eligible repair expenditures and has received payments to date of approximately $4.4 million and $1.3 million for units C-10 and C-8, respectively.

- Work continued on the B5-B10 modernization project in the first powerhouse at Rock Island Dam. The third unit, B6, was completed in April 2018; and the unit was returned to service and back on line in October 2018 after experiencing an exciter rub in August 2018. The fourth unit, B7, is scheduled to be completed in 2019. The remaining two units for the B5-B10 project, B5 and B8, currently are scheduled for modernization beginning in late 2019 and early 2021, respectively. Unit B5 will follow B7 if all issues have been resolved. The original four generating units in the first powerhouse at Rock Island Dam, B1-B4, were taken out of service in early 2016 due to corrosion fatigue on the blades following 80-plus years of service. Work began in 2018 and currently is scheduled to be completed by the end of 2021. Units B1 and B8 are currently expected to be out of service during the 2021 Habitat Conservation Plan (HCP) check-in. Extensive analysis reviewed by the Board of Commissioners in 2017 showed it was cost-effective to also rehabilitate major components, such as turbines, generators and related equipment, of the eight 1970s-era units in the second Powerhouse at Rock Island Dam. This work should provide at least 40 years of additional use. The overall project was estimated at $313 million and will be reevaluated at regular intervals to confirm the plan. Plans include purchasing one new generator and certain major components to prevent delays in the project. Work is set to start in 2021 and finish in 2029.

- In December 2018, District Commissioners approved a new rate for cryptocurrency, blockchain and similar operations effective April 1, 2019. The District will accept new cryptocurrency service applications on that date. In March 2018, Commissioners imposed an application moratorium for electric service for cryptocurrency mining. The decision came after reviewing impacts on utility operations from existing loads and applications for service. Impacts from cryptocurrency mining applications were hampering responses to the District's overall planned work and threatening the county's electric grid capacity to meet planned growth. The new rate, plus fees and charges, strives to have operators carry the cost and risks – operational and financial – of providing the power. The rate will allow the District to serve cryptocurrency operations while protecting other customers from the uncertainty and volatility of the cryptocurrency industry.

- As part of a power sales agreement, the District received a $62 million contract payment from Alcoa Corporation. The District plans to use these funds to stay focused on implementing strategic priorities of investing in assets and people, reducing debt and implementing the Public Power Benefit Program. Alcoa's Wenatchee Works smelter has been curtailed since December 2015. The power sales contract included an $86 million deferred upfront charge that was specifically designed to encourage Alcoa to operate the plant. Alcoa earned a payment discount each year the smelter operated from 2011 to 2015. In 2017, Commissioners agreed to defer the bulk of Alcoa's remaining charge until June 2018 as Alcoa considered whether to restart the facility. The $62 million payment represents the remainder of the deferred upfront charge. The payment revenue will be amortized over the remaining 10 years of the contract. The payment under the contract does not prevent the possibility of a restart, and Alcoa's contract with the District remains in place until 2028.

OVERVIEW OF THE FINANCIAL STATEMENTS

This section of the Annual Report consists of the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), Basic Financial Statements with accompanying Notes and Supplementary Information. The financial statements of the District are designed to provide readers with a broad overview of the District's finances similar to a private-sector business. They are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows. These statements offer short- and long-term financial information about District activities.

The Statements of Net Position present information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities).

The Statements of Revenues, Expenses and Changes in Net Position provide the operating results broken into categories of operating revenues and expenses, non-operating revenues and expenses, as well as capital contributions.

The Statements of Cash Flows provide relevant information about the District's cash receipts and cash payments from operations as well as funds provided by and used in capital and related financing and investment activities.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that helps answer this question. These two statements report the net position of the District and the changes in net position. The District's Net Position – the difference between the total of assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources – is one way to measure financial health. Over time, increases or decreases in the District's net position are one indicator of whether financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, customer growth and legislative mandates should also be considered.

The District's total net position increased by $105 million in 2018 and $105 million in 2017, despite the continuing operating challenges of generating unit repairs at Rocky Reach and Rock Island and surge tank repairs at Lake Chelan, demonstrating the effectiveness of risk management plans and strong financial policies. The increases are primarily due to continued strong operating results stemming from the District's hedging program, real-time agreement and long-term power sales contracts. The hedging program requires locking in predictable revenue through the sale of excess energy under both forward block transactions and slice contracts and is proving to be successful at providing rate stability and meeting financial goals. Other factors that contributed to favorable results included operating expenses below budget, continued debt reduction that lowered interest expense and increased interest earnings on higher cash and investment balances.

The following analysis provides a three-year comparison of key financial information:

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2018	2017	2016	Increase (Decrease) 2018 – 2017
Current assets	$ 177	$ 168	$ 120	$ 9
Net utility plant	1,146	1,101	1,082	45
Other non-current assets	518	439	462	79
Total assets	1,841	1,708	1,664	133
Deferred outflows of resources	12	14	18	(2)
Current liabilities	133	117	118	16
Long-term debt	481	507	559	(26)
Other liabilities	202	170	187	32
Total liabilities	816	794	864	22
Deferred inflows of resources	39	35	30	4
Invested in capital assets, net of related debt	625	560	489	65
Restricted	118	146	160	(28)
Unrestricted	255	187	139	68
Total net position	$ 998	$ 893	$ 788	$ 105

(amounts in millions)	2018	2017	2016	Increase (Decrease) 2018 – 2017
Operating revenues	$ 386	$ 373	$ 363	$ 13
Less				
Operating expenses	269	251	246	18
Other expenses	18	22	25	(4)
Net income before capital contributions	99	100	92	(1)
Capital contributions	6	5	4	1
Change in net position	105	105	96	-
Total net position – beginning of year	893	788	692	105
Total net position – end of year	$ 998	$ 893	$ 788	$ 105

ASSETS

Current assets increased by $9 million in 2018 primarily due to an increase in accounts receivable. The higher accounts receivable balance was primarily the result of higher average wholesale power prices during 2018 compared to 2017.

Current assets increased by $48 million in 2017 as a result of the District's positive 2017 operating results. Cash generated by operations exceeded payments for debt reduction and capital expenditures, resulting in higher investment balances.

As of December 31, 2018, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant increased $45 million in 2018, reflecting additional investments in utility plant assets, the largest being the ongoing modernization at the Rock Island hydroelectric project, that were offset somewhat by annual depreciation.

As of December 31, 2017, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant increased $19 million in 2017, reflecting additional investments in utility plant assets, the largest of which being the ongoing modernization at the Rock Island hydroelectric project. Other additions included a variety of electric transmission and distribution system services and improvements and expansion of the District's fiber-optic network. The 2017 additions were partially offset by annual depreciation of plant in service.

Other noncurrent assets, which includes noncurrent restricted assets and other assets increased $79 million in 2018. The increase is primarily attributable to higher investment balances resulting from receipt of a $62 million long-term power sales agreement payment, combined with cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves. Other noncurrent assets decreased $23 million in 2017 as a result of capital recovery and debt repayment funds being used to fund capital investment at the District's hydro projects.

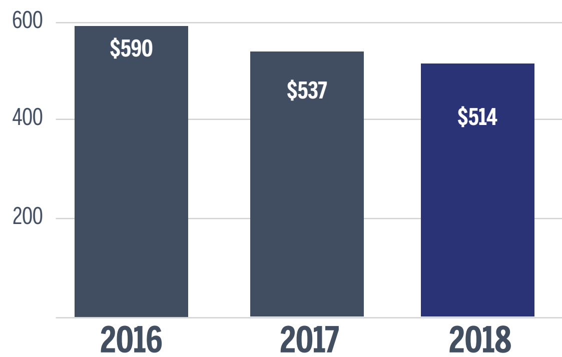
Deferred outflows of resources decreased $2 million and decreased $4 million in 2018 and 2017, respectively. Both the decrease in 2018 and 2017 were due to changes in the actuarial valuation of the Public Employees' Retirement System (PERS) collective net pension liability for PERS plans 1, 2 and 3 in which the District participates combined with the monthly amortization of losses on refunding debt.

LIABILITIES

Current liabilities increased $16 million in 2018, primarily due to an increase in accounts payable combined with an increase in the current portion of unearned wholesale power sales. Accounts payable increased as a result of higher accruals near the end of the year. Higher accruals were due to normal fluctuations in the amount and timing of billings. The increase in the current portion of unearned wholesale power sales represents the change in the amount that was previously deferred and will be recognized as revenue in 2019.

Current liabilities decreased $1 million in 2017, primarily due to a decrease in the current portion of long-term obligations. The decrease in the current portion of long-term obligations is due primarily to changes in regularly scheduled repayments of bond principal on existing debt compared to the prior year, combined with changes in the current portion of license obligation for the Lake Chelan hydroelectric project.

Total Debt Outstanding
(amounts in millions)



During 2018, scheduled maturities of debt were partially offset by accretion of interest on capital appreciation bonds resulting in a decrease in total debt outstanding of $24 million. Total debt outstanding decreased by $52 million during 2017 due to scheduled maturities of debt combined with an additional $29 million in accelerated principal payments partially offset by accretion of interest on capital appreciation bonds. These reductions in total debt contributed to the $26 million and $52 million reduction in long-term debt in 2018 and 2017, respectively, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2018 or 2017.

For more information regarding the long-term debt activity, see Note 6.

Other liabilities increased by $32 million in 2018, primarily due to receipt of the $62 million long-term power sales agreement payment that was deferred as unearned revenue and will be recognized in wholesale sales over the remaining term of the agreement. This increase was partially offset by the normal amortization of unearned revenue related the District's long-term power sales agreements and a decrease in net pension liability. Unearned wholesale power sales revenue was received previously from power purchasers and is being recognized as revenue over the life of the agreements. Net pension liability fluctuates due to changes in the actuarial valuation of the PERS collective net pension liability for PERS plans administered by the Washington State Department of Retirement Systems in which the District participates.

Other liabilities decreased by $17 million in 2017, primarily due to changes in the actuarial valuation of the PERS collective net pension liability for PERS plans administered by the Washington State Department of Retirement Systems in which the District participates, combined with the normal amortization of unearned revenue related to the District's long-term power sales agreements.

Deferred inflows of resources increased $4 million and $5 million in 2018 and 2017, respectively, primarily due to the District recording its proportionate share of the increase in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems.

NET POSITION

Invested in capital assets, net of related debt, increased $65 million and $71 million in 2018 and 2017, respectively. The increase in 2018 reflects additions to plant combined with a reduction in debt primarily as a result of regularly scheduled repayments of bond principal on existing debt. The increase in 2017 reflects a reduction in debt primarily as a result of regularly scheduled repayments on bond principal, as well as $29 million in accelerated principal payments on existing debt.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements.

Restricted net position decreased $28 million and $14 million in 2018 and 2017, respectively. The decreases in 2018 and 2017 were primarily due to the use of cash restricted for construction of capital assets.

Unrestricted net position is not restricted for the purpose of debt covenants or other legal requirements and can be used to finance the day-to-day operations of the District. In 2018 and 2017, unrestricted net position increased $68 million and $48 million, respectively, due primarily to the retention of a portion of the District's positive earnings as unrestricted assets. The remaining earnings were deployed primarily for debt reduction and investment in capital assets.

REVENUES AND EXPENSES

In 2018, wholesale sales increased $20 million compared to 2017 primarily due to an increase in volume of energy sold combined with higher average wholesale prices on the District's sale of surplus energy. In addition, energy book-outs decreased due to a lower volume of energy booked out for scheduling purposes. Book-outs reduce overall revenues, so a reduction in book-outs increases revenues.

Purchased power costs increased $10 million in 2018 compared to 2017 primarily due to a $9 million decrease in energy book-outs. Purchased energy book-outs reduce overall purchased power costs, so a reduction in book-outs increases costs. The remaining increase is due mainly to higher average wholesale power prices.

Other income and expenses, which included net interest expense and income, decreased by $4 million in 2018 primarily as a result of higher investment income due to increased cash and investment balances resulting from the District's positive operating results, the long-term power sales contract one-time payment and continued higher interest rates combined with lower interest on long-term debt due to declining debt balance.

In 2018, net income before capital contributions decreased $1 million compared to 2017 due primarily to an increase in hydro operation and maintenance expense, which was mostly offset by receiving higher average prices on the District's wholesale sales of its surplus energy combined with higher investment income. Capital contributions remained relatively flat from 2017 to 2018.

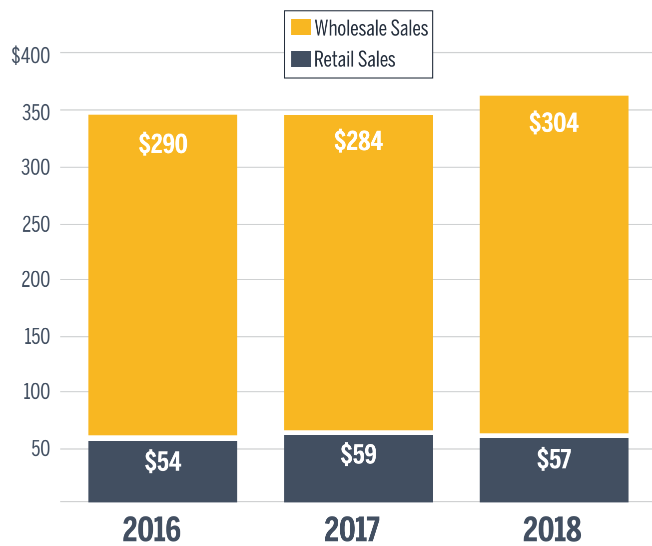
In 2017, wholesale sales decreased $6 million compared to 2016 primarily due to the reduction in revenues resulting from increased energy book-outs combined with decreased wholesale revenue under the District's cost-plus long-term power sales agreements. Energy book-outs increased due to a higher volume of energy booked out for scheduling purposes, combined with a higher average price. The reduction in revenues was partially offset by increased slice contract sales of surplus energy due to the increasing price structure of the District's slice contracts and the point in the contract life cycles compared to the prior year and retention of some surplus sales proceeds due to Alcoa's plant curtailment.

Purchased power costs increased $7 million in 2017 compared to 2016 primarily due to an increase in block purchases. Block purchases increased due to both a higher volume of buy-backs to meet load and manage the District's hedging program, combined with higher average market prices in 2017 as compared to 2016.

Other income and expenses, which included net interest expense and income, decreased by $3 million in 2017 primarily as a result of lower interest on long-term debt due to declining debt balances combined with higher investment income primarily due to increased cash and investment balances resulting from the District's positive operating results and higher interest rates.

Net income before capital contributions increased $8 million in 2017 compared to 2016 due primarily to an increase in other electric revenues for the receipt of business interruption insurance proceeds related to Rocky Reach units C-8 and C-10. This was combined with increases in certain variable contract fees and a one-time contract deferral payment related to a long-term power sales agreement.

Wholesale/Retail Revenues
(amounts in millions)



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any information provided in this report should be directed to the District at P.O. Box 1231, Wenatchee, WA 98807.

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STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 23,306	$ 20,968
Investments	86,154	85,290
Accounts receivable, net	37,484	27,736
Accrued interest receivable	1,680	1,937
Materials and supplies	13,212	12,831
Prepayments and other	1,154	1,488
Current portion of regulatory assets	2,978	2,978
	165,968	153,228
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	2,309	2,798
Investments	8,527	11,379
	10,836	14,177
TOTAL CURRENT ASSETS	176,804	167,405
UTILITY PLANT		
In service, at original cost	2,069,130	2,001,513
Construction work in progress	100,838	85,677
Less-accumulated depreciation	(1,023,960)	(985,716)
	1,146,008	1,101,474
RESTRICTED ASSETS - NONCURRENT		
Cash and cash equivalents	2,863	5,555
Investments	120,320	144,466
	123,183	150,021
OTHER ASSETS		
Long-term receivables, net	406	506
Long-term investments	347,803	240,725
Regulatory assets, net	40,712	41,167
Derivative instrument asset	5,294	6,405
Other	755	875
	394,970	289,678
TOTAL ASSETS	1,840,965	1,708,578
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	5,109	6,063
Pensions	6,554	7,433
Other post-employment benefits	101	-
	11,764	13,496
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,852,729	$ 1,722,074

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2018	2017
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 36,937	$ 35,894
Current portion of unearned wholesale power sales	14,942	8,902
Warrants and accounts payable	55,343	46,580
Accrued taxes	4,034	4,139
Accrued interest	6,185	6,462
Accrued vacation and other	15,347	14,999
	132,788	116,976
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	480,799	506,537
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	137,899	92,226
Net pension liability	36,180	49,688
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	8,940	8,960
Other liabilities	594	384
	202,113	169,758
TOTAL LIABILITIES	815,700	793,271
DEFERRED INFLOWS OF RESOURCES		
Derivatives	5,294	6,405
Pensions	13,611	8,125
Regulatory liabilities	19,578	20,971
Other postemployment benefits	71	95
	38,554	35,596
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Net Investment in capital assets	625,343	559,490
Restricted	117,531	146,373
Unrestricted	255,601	187,344
	998,475	893,207
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,852,729	$ 1,722,074

The accompanying notes are an intergral part of these financials statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(amounts in thousands)	2018	2017
OPERATING REVENUES		
Retail sales	$ 57,000	$ 59,248
Wholesale sales	303,823	283,889
Other operating revenues	25,698	29,720
	386,521	372,857
OPERATING EXPENSES		
Purchased power and water	53,201	42,976
Generation	98,924	90,755
Utility services	49,678	48,584
Taxes	8,541	8,891
Depreciation and amortization	44,186	47,534
Other operation and maintenance	14,823	11,942
	269,353	250,682
OPERATING INCOME	117,168	122,175
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(25,202)	(26,718)
Amortization of deferred debt costs	(700)	(740)
Investment income	11,435	7,959
Federal subsidy income	590	587
Other	(3,957)	(3,601)
	(17,834)	(22,513)
INCOME BEFORE CAPITAL CONTRIBUTIONS	99,334	99,662
CAPITAL CONTRIBUTIONS	5,934	5,302
CHANGE IN NET POSITION	105,268	104,964
TOTAL NET POSITION		
Beginning of year	893,207	787,780
Cumulative effect of change in accounting principle	-	463
Beginning of year, as adjusted	893,207	788,243
TOTAL NET POSITION		
End of period	$ 998,475	$ 893,207

The accompanying notes are an intergral part of these financials statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(amounts in thousands)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 425,742	$ 370,053
Payments to suppliers	(121,525)	(121,533)
Payments to employees	(95,735)	(89,566)
Insurance proceeds	-	3,943
Net cash provided by operating activities	208,482	162,897
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(91,032)	(65,330)
Proceeds from sale of plant	260	210
Principal paid on debt	(35,462)	(64,338)
Interest paid on debt	(13,662)	(15,216)
Capital contributions	4,511	4,668
Other	(4,184)	319
Net cash used in capital and related financing activities	(139,569)	(139,687)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(279,864)	(180,980)
Proceeds from sales and maturities of investments	197,862	145,745
Interest on investments	11,780	7,699
Long-term receivables	100	117
Other, net	366	(634)
Net cash used by investing activites	(69,756)	(28,053)
NET DECREASE IN CASH & CASH EQUIVALENTS	(843)	(4,843)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	29,321	34,164
CASH & CASH EQUIVALENTS, END OF YEAR	$ 28,478	$ 29,321
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 117,168	$ 122,174
Depreciation and amortization	44,186	47,534
(Increase) decrease in operating assets:		
Accounts receivable, net	(9,748)	4,143
Materials and supplies	(381)	(333)
Prepayments	334	(339)
Net OPEB asset	148	(87)
Other	2,643	(881)
Deferred outflows of resources	778	3,857
Increase (decrease) in operating liabilities:		
Current portion unearned wolesale power sales	6,040	-
Accounts payable	11,072	(4,603)
Accrued taxes	(105)	313
Accrued vacation and other	348	774
Unearned wholesale revenue	45,007	(4,170)
Customer deposits	(1,802)	896
Net pension liability	(13,508)	(13,790)
Deferred inflows of resources	6,302	7,409
Net cash provided by operating activities	$ 208,482	$ 162,897
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ (507)	$ 3,440
Capital contributions	853	65
Amortization of regulatory assets	1,977	(1,595)

The accompanying notes are an integral part of these statements.

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NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY AND OPERATIONS OF THE DISTRICT

Public Utility District No. 1 of Chelan County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District owns and operates electric generation, electric transmission, electric and water distribution, wastewater properties and a wholesale telecommunication system. The District is governed by an elected five-member Board of Commissioners (Commissioners). The Commissioners' responsibilities are to appoint the General Manager, approve budgets for the District's Systems, adopt regulations and set policies and guiding financial and operating principles for the operations included in these financial statements. The District has no material component units. The District's operations consist of the Rocky Reach Hydroelectric System, the Rock Island Hydroelectric System, the Lake Chelan Hydroelectric System (the Hydro Systems); a retail electric distribution and transmission system, a water system, a wastewater system, a fiber-optic telecommunication system (Utility Services); and two internal service systems.

ACCOUNTING POLICIES

The accompanying financial statements of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to a municipal utility. 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 including GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

In November 2016, GASB issued Statement No. 83, "Certain Asset Retirement Obligations." An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement 83 establishes guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Statement 83 is effective for fiscal year 2019. The District is currently evaluating the financial statement impact of adopting this statement.

In January 2017, GASB issued Statement No. 84, "Fiduciary Activities." This statement establishes criteria for identifying fiduciary activities of all state and local governments, including separate criteria for postemployment benefit arrangements that are fiduciary activities. Statement No. 84 is effective for fiscal year 2019. The District is currently evaluating the financial statement impact of implementing this statement.

In March and May of 2017, GASB issued Statement No. 85, "Omnibus 2017" and Statement No. 86, "Certain Debt Extinguishment Issues," respectively. Statement No. 85 addresses a variety of practice issues, and Statement No. 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets are placed in an irrevocable trust for the purpose of debt extinguishment. Both statements were effective for fiscal year 2018. Implementation of these statements did not have a material impact to the District's financial statements.

In June 2017, GASB issued Statement No. 87, "Leases." This statement addresses accounting for leases and requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognition of inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 is effective for fiscal year 2020. The District is currently evaluating the financial statement impact of adopting this statement.

In April 2018, GASB issued Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This statement clarifies which liabilities governments should include when disclosing information related to debt and requires additional essential information related to debt be disclosed in notes to the financial statements. Statement No. 88 is effective for fiscal year 2019. The District is currently evaluating the financial statement impact of implementing this statement.

In June 2018, GASB issued Statement No. 89, "Accounting for Interest Costs Incurred before the End of a Construction Period." This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement was effective for fiscal year 2020; however, the District chose to early implement this statement for fiscal year 2018. The requirements of this statement were implemented prospectively and did not have a material impact to the District's financial statements.

In August 2018, GASB issued Statement No. 90, "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61." This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization be reported as an investment if a government's holding meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. This statement is effective for fiscal year 2019. The District is currently evaluating the financial statement impact of adopting this statement.

CHANGE IN ACCOUNTING PRINCIPLE – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In June 2015, GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of this statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). The statement replaces Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. Statement No. 75 was effective for fiscal year 2018.

The District's 2017 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position were restated for the impacts of the required retroactive implementation of GASB Statement No. 75. Prior to implementation of this statement, the District's OPEB plan was not required to be reflected in the District's financial statements. Upon the adoption of GASB Statement

No. 75, the District must recognize the net OPEB liability (asset), OPEB expense and deferred inflows of resources and deferred outflows of resources. Implementation of Statement No. 75 had no impact on the District's cash flows.

The impacts of restating the District's 2017 financial statements are presented in the following tables:

IMPACTS TO THE DISTRICT'S STATEMENT OF NET POSITION

(amounts in thousands)	Restated 2017 Balance	2017 Balance as Previously Reported
OTHER ASSETS		
Other	$ 875	$ 324
Total other assets	289,678	289,127
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow – Other postemployment benefits	$ 95	$ -
Total deferred inflows of resources	35,596	35,501
NET POSITION	$ 893,207	$ 892,751

IMPACTS TO THE DISTRICT'S STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Restated 2017 Balance	2017 Balance as Previously Reported
OPERATING EXPENSES		
Other operation and maintenance	$ 11,942	$ 11,935
Total operating expenses	250,682	250,675
CHANGE IN NET POSITION	$ 104,964	$ 104,971

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The District has used significant estimates in the determination of fair value of derivatives, regulatory assets and liabilities, depreciable lives of utility plant, license obligations, unbilled revenues, self-insurance reserves, incurred but not reported self-insurance liabilities, allowance for uncollectible accounts receivable and payroll related liabilities.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits at commercial banks and investments with maturities of ninety days or less when purchased.

REVENUES AND EXPENSES FROM OPERATIONS

Revenues of the District are recognized when services are delivered and are comprised of sales of wholesale power, sales of electric, water, wastewater and wholesale telecommunication services and sales of environmental attributes. The accompanying financial statements include estimated unbilled revenues for energy and wholesale telecommunication services delivered to customers between the last billing date and the end of the year. Estimated unbilled revenues amounted to $2.4 million and $2.5 million in 2018 and 2017, respectively. The amounts are included in accounts receivable.

Revenues from the Rocky Reach and Rock Island hydroelectric production facilities represent sales of power generated under firm "take-or-pay" power sales contracts or sales directly to the retail electric distribution system. Revenues under these contracts are cost-plus based, including debt service costs.

In January 2006, the District entered into a 20-year power sales contract with Puget Sound

Energy (PSE) for 25% of the output of the Rocky Reach and Rock Island projects, effective in 2011 and 2012, respectively. PSE is generally responsible to pay 25% of all costs associated with the projects, including capital, operation and maintenance and debt service costs and various fees. Under the terms of the contract, the District received an advance payment of $89.0 million during 2006, which was deferred and is being recognized as revenue over the term of the contract.

In July 2008, the District entered into a 17-year power sales contract with Alcoa, Inc. for output equivalent to 26% of the Rocky Reach and Rock Island projects, effective in 2011 and 2012, respectively. Alcoa, Inc. is generally responsible to pay 26% of all costs associated with the projects, including capital, operation and maintenance, debt service costs and various fees. Under the terms of the contract, the District received an advance payment of $22.9 million of an $89.0 million capacity reservation charge during 2008, which was deferred and is being recognized as revenue over the term of the contract. The balance of the capacity reservation charge was to be deferred as long as the plant continued to operate and waived if the plant continued to operate under the terms of the contract for the entire contract term. In the event of a shutdown lasting longer than 90 days, the deferred charges would become due depending on the length of the shutdown.

In September 2015, Alcoa, Inc. announced its intention to split Alcoa, Inc. into two stand-alone corporations, Alcoa Corporation and Arconic, Inc. Alcoa, Inc. requested and the District consented to the assignment of the power sales agreement to the new entity known as Alcoa Corporation. The legal separation was effective November 1, 2016, and Alcoa, Inc. conveyed its worldwide aluminum operations, including its Wenatchee Works smelting facility, to Alcoa Corporation, and Alcoa Corporation assumed all of the rights and obligations under the power sales contract and related agreements.

In December 2015, Alcoa curtailed its Wenatchee Works smelting facility. Under terms of the power sales agreement, Alcoa Corporation must continue to pay its 26% share of the costs and charges regardless of the actual amount of energy produced or the amount of power used to operate Wenatchee Works.

In accordance with contract provisions addressing a shutdown event, the District is selling unused power in the wholesale market on Alcoa Corporation's behalf. After a 90-day threshold of being curtailed, the proceeds from the sale of any unused power were first applied to Alcoa Corporation's monthly contractual costs. Any surplus proceeds in excess of Alcoa Corporation's costs were retained by the District, and any shortfalls were paid by Alcoa Corporation. Alcoa Corporation continues to have contractual rights to the 26% share of project output even while Wenatchee Works is idle.

Additional contract provisions apply for the initially deferred capacity charges due to the shutdown event. The first charge, the "Initial Shutdown Amount," of $8.6 million, became due and was paid in December 2016, upon the plant being idle for one year. The "Initial Shutdown Amount" was deferred and will be recognized in revenue over the remaining term of the agreement. A second charge, the "Shutdown Settlement Amount," which is the $67 million deferred balance of the capacity reservation charge, was scheduled to become due in the event the Wenatchee Works facility remained shutdown for longer than 18 months measured from the December 2015 curtailment.

In May 2017, the District entered into an amendment to the power sales agreement that allowed a one-year deferral of a large portion of the "Shutdown Settlement Amount" to June 2018. In exchange for the deferral, Alcoa paid the District one year of the deferred capacity charge amounting to $4.5 million and an additional $2.8 million to compensate the District for the value of the one-year deferral of the remaining balance of $62 million, as well as extending contract collateral requirements. The $4.5 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The $2.8 million deferral charge was included as a component of other operating revenues on the Statement of Revenues, Expenses and Changes in Net Position.

In June 2018, the Wenatchee Works smelting facility remained curtailed, and the $62.4 million balance of the Shutdown Settlement Amount became due and was paid by Alcoa Corporation. The $62.4 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The contract and original terms remain in place until 2028.

The District's share of power produced by the Rocky Reach and Rock Island Systems is sold to the retail electric distribution system on a cost-plus basis. Power produced by the Lake Chelan System is sold to the retail electric distribution system at cost. As of December 31, 2018, the Rocky Reach, Lake Chelan and Rock Island Systems sell 49%, 100% and 49%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers, firm power purchasers or sold on the wholesale market if in excess of the District's local load.

Revenues and purchased power expenses related to "booked-out" wholesale energy sales and purchases (agreement with counterparty to net settle before scheduling for delivery) are reported net in the Statement of Revenues, Expenses and Changes in Net Position as a component of Wholesale Sales. For the years ended December 31, 2018 and December 31, 2017, booked-out energy transactions amounted to $44.0 million and $53.1 million, respectively.

Revenues from the sale of environmental attributes associated with a portion of the District's hydroelectric and wind generation are recorded as delivered and earned.

Electric, water and wastewater customers and telecommunication service providers are billed on a cyclical basis under rates established by the District's Commission. Revenues from the sale of electric, water, wastewater and telecommunication services are recorded as delivered and earned.

For the year ended December 31, 2018, the District had three significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $199.8 million. The District had three significant customers for the year ended December 31, 2017, collectively comprising total revenue of $164.2 million.

The District accounts for expenses on an accrual basis. Expenses for the costs of production from the Rocky Reach, Rock Island and Lake Chelan hydroelectric production facilities are recovered under firm power sales contracts or sales directly to the retail electric distribution system.

Under the American Recovery and Reinvestment Act of 2009, the District issued taxable Build America Bonds (BABs) to finance capital projects that otherwise could be financed with tax-exempt bonds. The District receives periodic subsidy payments from the federal government which were equal to 35% of the interest paid on the BABs through 2012. During 2013, the United States Congress made changes to the subsidy program which resulted in a reduction of the total annual subsidy to approximately 32% of the interest paid. In both 2018 and 2017, the District recognized non-operating revenues of $0.6 million.

Intradistrict revenues and expenses are eliminated in the Statement of Revenues, Expenses and Changes in Net Position.

REGULATORY DEFERRALS

The Commissioners have the authority to establish the level of rates charged for all District services. As a regulated entity, the District's financial statements are prepared in accordance with "Regulated Operations," which require that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the Statement of Revenues, Expenses and Changes in Net Position as incurred, are recognized when included in rates and recovered from, or refunded to, customers. The District records various regulatory assets and credits to reflect rate-making actions of the Commissioners. See Note 5.

POWER MARKETING

To hedge expected forward surplus power and balance the District's anticipated power resources and demand for those power resources, the District enters into forward physical power sales and purchase agreements.

To help manage risk and keep future rates stable and affordable, the District has implemented a multi-layered approach to power resource sales, including retail load, cost-plus contracts, and a comprehensive market-based power hedging strategy. A key component of this strategy includes the execution of market based wholesale products, such as physical block transactions and slice output contracts using a laddered approach over a rolling forward horizon of 60 months beyond the current year. The execution of this strategy helps to mitigate the risks the District faces related to the wholesale power markets while securing stable revenue for the future. Forward physical block transactions are used to mitigate wholesale market price risk the District faces related to its long or short positions. The execution of slice output contracts, which provide a counterparty with a percentage share of hydropower production for a fixed payment, also help mitigate price risk, as well as mitigates volumetric risk related to river flows and production risk related to the District's ability to generate power due to unit outages.

In addition to the forward trading horizon of 60 months beyond the current year, the District's Board of Commissioners approved a resolution on February 8, 2014, authorizing the General Manager or designee to enter into one or more transactions for the forward sale of energy and capacity and associated environmental attributes for a longer term. The resolution authorized sales not to exceed 10% of the output of Rocky Reach and Rock Island for a term up to fifteen years in duration with the delivery to begin within six years of execution. During 2017, the District entered into two contracts under this resolution. The first contract was a sale of 5% of Rocky Reach and Rock Island output for the years 2021-2030, and the second contract was a sale of 5% of output of Rocky Reach and Rock Island for the years 2019-2023.

All power risk management activities are subject to the Power Risk Management Policy requirements and oversight by the District's Power Risk Management Committee, which monitors the District's exposure to various power related risks using a series of industry standard methodologies. The power hedging strategy is included as part of the Power Risk Management Policy and defines the specific hedging objectives and targets that are measured, monitored and communicated to the Committee.

The Power Risk Management Policy includes credit management provisions under which individual dollar and volumetric limits are assigned to counterparties based upon specific predetermined criteria utilizing an industry standard credit-scoring model. Active counterparties are reviewed on a regular basis to evaluate whether the assigned limits need to be adjusted. Additionally, daily monitoring of financial and market information is performed to identify any developing counterparty credit risk. Transactions are limited accordingly when deemed necessary, and any exceptions to the assigned limits are reported to the Power Risk Management Committee.

The District requires that a one-way collateral annex be executed in conjunction with its slice output contracts or when deemed necessary to facilitate trading. The District is not required to post any collateral under these one-way margin agreements. Currently, the District requires that all posting requirements be met with a Letter of Credit, unless the counterparty holds a senior unsecured credit rating of A+ from at least one of the nationally recognized rating agencies. For the higher rated counterparties, the District accepts Performance Assurance in the form of cash.

All of the District's forward power contracts are derivative instruments. All forward power contracts in place during 2018 and 2017 are classified as normal purchases and sales under GASB Statement No. 53 and as such, are excluded from fair value reporting requirements. All forward power contracts are recognized over the duration of the contracts as a component of Operating Revenues and Purchased Power Operating Expenses in the Statement of Revenues, Expenses and Changes in Net Position.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

A reserve is established for uncollectible accounts receivable based upon actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for uncollectible accounts was $181,000 and $101,000 at December 31, 2018 and 2017, respectively.

CAPITAL CONTRIBUTIONS

A portion of the District's utility plant has been financed through contributions from federal and state agencies and from assessments of local property owners. The District also records contributions from customers and developers, primarily relating to the District's Utility Services System, in accordance with the District's line extension policy. In-kind contributions are recognized based on the donor's actual costs. Capital contributions are recorded as non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Position. For rate-making purposes, individual contributions in excess of $1 million are deferred when received and included in revenues to match the estimated useful lives and amortized costs of the related facilities. See Note 5.

MATERIALS AND SUPPLIES INVENTORY

Materials and supplies consist of hydroelectric generation, transmission, distribution, water and wastewater assets, fiber-optic cable and fiber-related supplies and are valued at average cost.

COMPENSATED ABSENCES

Employees of the District accrue a personal leave benefit based upon a years of service schedule. Personal leave may be used for vacation and sick leave purposes. The District records personal leave as an expense and a liability as earned. Unused personal leave may be accumulated up to a maximum of 1,350 hours for non-bargaining unit personnel and 1,200 hours for bargaining unit employees. Effective April 1, 2012, any newly hired employee may only accrue 800 hours of personal leave. Upon resignation, retirement or death, 90% of accumulated personal leave is deposited into a personal Voluntary Employees' Beneficiary Association (VEBA) account. The remaining 10% of accumulated personal leave is cashed out.

UTILITY PLANT

Utility plant is stated at original cost, which includes both direct and indirect costs of construction or acquisition. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units that meet the District's capitalization threshold to utility plant. The District's capitalization threshold is $5,000. As the District constructs various major projects, costs accumulate in construction work in progress and are capitalized to utility plant after the projects have been completed and placed into service.

Provision for depreciation is computed using the straight-line method by applying rates based upon the estimated service lives of the related plant, ranging from 5 to 90 years.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Chelan County Public Utility District Retirees' Benefit Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

SUBSEQUENT EVENTS

The District has evaluated all subsequent events through April 19, 2019, the issue date of this report, to ensure that these financial statements include appropriate disclosure of events both recognized in the financial statements as of December 31, 2018, and events which occurred subsequent to December 31, 2018, but were not recognized in the financial statements.

NOTE 2: CASH AND INVESTMENTS

Investments of the District are held by banks or trust companies as the District's agents and in the District's name. The remainder of the District's funds consists of uninvested cash that is protected against loss by a combination of federal depository insurance and being on deposit with qualified public depositories of the Washington Public Deposit Protection Commission (WPDPC).

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. Accounts that are allocated by resolution of the Commissioners are considered to be board designated accounts. Board designated accounts are a component of unrestricted assets as their use may be redirected at any time by approval of the Commissioners. Generally, when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first as appropriate, then unrestricted resources as they are needed.

As of December 31, the District's unrestricted, board designated and restricted assets included on the Statements of Net Position as cash and cash equivalents, investments and long-term investments, consisted of the following:

(amounts in thousands)	2018	2017
Unrestricted assets		
Unrestricted	$ 90,296	$ 83,589
Board designated	366,967	263,394
Total unrestricted assets	457,263	346,983
Restricted assets	134,019	164,198
	$ 591,282	$ 511,181

As of December 31, 2018 and 2017, the District had the following cash and investments:

Investment Type (amounts in thousands)	Total 2018	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 57,793	$ 34,366	$ 10,036	$ 1,499	$ 11,892
U.S. Treasury Strips	15,919	-	-	-	15,919
U.S. Agency Notes	211,438	15,284	48,321	54,483	93,350
U.S. Agency Bills	37,220	32,315	-	1,822	3,083
Municipal Bonds	124,788	41,896	8,937	12,088	61,867
State Investment Pool	25,271	25,271	-	-	-
Certificates of Deposit	115,646	-	15,132	35,267	65,247
Cash Deposits	3,207	3,207	-	-	-
	$ 591,282	$ 152,339	$ 82,426	$ 105,159	$ 251,358

Investment Type (amounts in thousands)	Total 2017	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 77,114	$ 18,910	$ 34,232	$ 10,069	$ 13,903
U.S. Treasury Strips	18,254	2,490	-	-	15,764
U.S. Agency Notes	218,035	66,040	15,399	48,464	88,132
U.S. Agency Bills	31,592	16,613	13,179	-	1,800
Municipal Bonds	136,865	31,729	43,626	9,055	52,455
State Investment Pool	25,346	25,346	-	-	-
Cash Deposits	3,975	3,975	-	-	-
	$ 511,181	$ 165,103	$ 106,436	$ 67,588	$ 172,054

Valuation of investments. The District reports cash on hand and bank deposits at their carrying amount. U.S Treasury notes or bonds, U.S. Government agency securities and municipal bonds that had a remaining maturity at the time of purchase of greater than one year are recorded at fair value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical securities. Investments classified in Level 2 are valued using observable inputs including quoted prices for similar assets or market corroborated pricing inputs such as yield curves and indices. U.S. Treasury bills, notes or bonds, U.S. Government agency securities, municipal bonds and commercial paper that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost, which approximates fair value. It is generally the District's policy to hold investments to maturity.

The District also reports its investment in the Washington State Treasurer's Local Government Investment Pool (LGIP) at amortized cost. The LGIP is an unrated external investment pool which reports its investments at amortized cost and transacts with its participants at a stable net asset value per share of $1.00. Participants may contribute and withdraw funds on a daily basis and must inform the LGIP of any contribution or withdrawal over $1.0 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for $1.0 million or less can be requested at any time prior to 10:00 a.m. on the day of the transaction. However, participants may complete transactions greater than $1.0 million when notification is made between 9:00 a.m. and 10:00 a.m., at the sole discretion of the LGIP. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The following schedule presents fair value measurements as of December 31, 2018 and 2017:

Investments (amounts in thousands)	Total 2018	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 57,793	$ 57,793	$ -	$ -	$ -	$ -
U.S. Treasury Strips	15,919	15,919	-	-	-	-
U.S. Agency Notes	211,438	-	211,438	-	-	-
U.S. Agency Bills	37,220	-	18,301	-	-	18,919
Municipal Bonds	124,788	-	124,788	-	-	-
State Investment Pool	25,271	-	-	-	-	25,271
Certificates of Deposit	115,646					115,646
Cash Deposits	3,207	-	-	-	-	3,207
Total Investments	$ 591,282	$ 73,712	$ 354,527	$ -	$ -	$ 163,043

Investments (amounts in thousands)	Total 2017	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 77,114	$ 58,204	$ -	$ -	$ -	$ 18,910
U.S. Treasury Strips	18,254	18,254	-	-	-	-
U.S. Agency Notes	218,035	-	213,036	-	-	4,999
U.S. Agency Bills	31,592	-	31,592	-	-	-
Municipal Bonds	136,865	-	133,360	-	-	3,505
State Investment Pool	25,346	-	-	-	-	25,346
Cash Deposits	3,975	-	-	-	-	3,975
Total Investments	$ 511,181	$ 76,458	$ 377,988	$ -	$ -	$ 56,735

Interest rate risk. The District's investment policy limits direct investments in securities to those with maturities of five years or less unless matched to a specific cash flow, or as designated in specific bond resolutions if such investments are made to coincide with the expected use of the funds. The District may collateralize its repurchase agreements using longer dated investments. The District may also invest in variable rate securities with final maturities beyond five years, as long as the time period between rate changes is less than five years. Callable investments are assumed to be held to maturity.

Credit risk. The District's Treasurer directs the investment of any temporary cash surplus in accordance with the District's investment policy and guided by State of Washington statute. The Treasurer may invest such surplus, depending on individual fund restrictions, in one or more of the following investments in accordance with the current District investment policy: 1) U.S. Treasury bills, notes or bonds; 2) U.S. Government agency securities, limited to 75% of the qualifying portfolio and no more than 25% of the total assets invested with a single issuer; 3) repurchase agreements, which must be collateralized with a third party at 102%, limited to $10 million with any financial institution; 4) savings or time deposits, including insured or collateralized certificates of deposit, with institutions approved as qualified public depositories by the WPDPC, amount held by each issuer limited to 15% for certificates of deposit and 20% for savings and other deposit accounts, of the District's investment portfolio; 5) bankers' acceptances with the highest short-term credit rating of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 30% of the qualifying portfolio and no more than $5 million invested in a single issuer; 6) commercial paper having received the highest short-term credit ratings of any two nationally recognized statistical ratings organizations at the time of purchase, limited to no more than 25% of the qualifying portfolio and no more than 3% of the total assets invested with a single issuer; 7) bonds of the State of Washington or any local government in the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency, limited to no more than 30% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 8) the LGIP, limited to no more than 25% of the qualifying portfolio; 9) general obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency, and when combined with bonds of the State of Washington or any local government in the State of Washington, limited to no more than 30% of the qualifying portfolio and no more than 5% of the total assets invested with a single issuer; 10) and any other investment permitted under the laws of the State of Washington.

As of December 31, 2018 and 2017, investments in debt securities had credit quality ratings as follows:

INVESTMENT RATING (S&P EQUIVALENT)

(amounts in thousands)	2018	2017
Long Term		
AAA	$ 24,908	$ 39,793
AA+	259,496	250,108
AA	62,638	47,825
AA-	13,071	32,145
A+	-	7,850
Short Term		
A-1+	-	3,505
	$ 360,113	$ 381,226

Custodial credit risk. The District's investment policy requires that securities purchased are held by a master custodian or other entity legally allowed to act as an independent third party on behalf of the District within that entity's trust department.

Concentration of credit risk. The District's investment policy requires that investments are diversified by security type and institution. Investments in an individual issuer of state or local government bonds are limited to no more than 5% of the District's total investment portfolio, and investments in an individual issuer of commercial paper are limited to no more than 3%; bankers' acceptances are limited to no more than $5 million by institution. The aggregate amount of savings, demand deposits and certificates of deposit are limited to 75% of portfolio and 20% per institution.

As of December 31, 2018 and 2017, 5% or more of the District's total investment portfolio was invested with each of the following issuers:

Issuer	S&P Credit Rating	Percentage of Portfolio 2018	2017
Federal Farm Credit Bank	AA+	9%	16%
Federal Home Loan Bank	AA+	12%	12%
Federal Home Loan Mortgage Corporation	AA+	5%	2%
Federal National Mortgage Association	AA+	11%	12%
Financing Corporation	AAA	2%	6%

DERIVATIVE INSTRUMENTS – FORWARD PURCHASE AGREEMENT

Objective and Terms. As a tool to achieve a fixed rate of return on certain District bond reserves, the District has entered into a forward purchase agreement for the purchase of investment securities. Under the terms of the agreement, the provider must tender qualified securities with maturities of six months or less to the District on the semi-annual debt service dates at a price that produces at least the guaranteed rate of return under the agreement.

The terms, including the counterparty credit ratings of the outstanding forward purchase agreement, as of December 31, 2018, are provided below.

FORWARD PURCHASE AGREEMENT

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/18 Fair Value	12/31/17 Fair Value
Wells Fargo Bank, N.A.	Aa2/A+/AA-	6.63%	$ 18,820,179	12/22/1999	6/1/2029	$ 5,294,000	$ 6,405,000

As of December 31, 2018 and 2017, the agreement is considered a hedging derivative instrument, and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to interest rates which are lower than when the forward purchase agreement was entered into, the agreement had a positive fair value to the District as of December 31, 2018 and 2017. The fair value takes into consideration the prevailing investment rate environment and the specific terms and conditions of the transaction. The fair value was estimated using the income approach.

Credit risk. The District is exposed to credit risk in the amount of the positive fair value of the forward purchase agreement. The credit ratings of the counterparty are noted in the preceding table.

Interest rate risk. The District is exposed to interest rate risk if the counterparty to the forward purchase agreement defaults or if the agreement is terminated.

Termination risk. The District or the counterparty may terminate a forward purchase agreement if the other party fails to perform under the terms of the respective contracts. If at the time of termination the agreement has a negative fair value, the District would be liable to the counterparty for a payment equal to the agreement's fair value.

NOTE 3: UTILITY PLANT

A summary of utility plant in service for the years ended December 31, 2018 and 2017 is as follows:

(amounts in thousands)	January 1, 2018	Additions	Reductions and Transfers	December 31, 2018	Depreciation Expense
Hydroelectric generation	$ 1,237,100	$ 49,213	$ (3,233)	$ 1,283,080	$ 22,725
Transmission	156,780	2,879	(634)	159,025	3,115
Distribution	250,531	11,195	(1,238)	260,488	6,827
General plant	145,233	5,901	(1,986)	149,148	5,206
Intangible	39,858	-	(188)	39,670	1,531
Telecommunications	89,740	4,136	-	93,876	3,052
Water/ Wastewater	82,271	1,642	(70)	83,843	1,730
	2,001,513	74,966	(7,349)	2,069,130	$ 44,186
Construction work in progress	85,677	89,274	(74,113)	100,838	
Accumulated depreciation	(985,716)	(44,187)	5,943	(1,023,960)	
	$ 1,101,474	$ 120,053	$ (75,519)	$ 1,146,008	

(amounts in thousands)	January 1, 2017	Additions	Reductions and Transfers	December 31, 2017	Depreciation Expense
Hydroelectric generation	$ 1,225,181	$ 14,588	$ (2,669)	$ 1,237,100	$ 27,164
Transmission	154,867	2,538	(625)	156,780	3,138
Distribution	241,261	11,283	(2,013)	250,531	6,582
General plant	140,844	8,544	(4,155)	145,233	4,819
Intangible	39,698	160	-	39,858	1,527
Telecommunications	87,053	2,687	-	89,740	2,609
Water/ Wastewater	81,286	1,083	(98)	82,271	1,695
	1,970,190	40,883	(9,560)	2,001,513	$ 47,534
Construction work in progress	58,473	67,862	(40,658)	85,677	
Accumulated depreciation	(946,486)	(47,534)	8,304	(985,716)	
	$ 1,082,177	$ 61,211	$ (41,914)	$ 1,101,474	

Plant assets include land of $74.1 million and $73.0 million as of December 31, 2018 and 2017, respectively.

In 2013, the four large generating units at Rocky Reach Dam were taken out of service after discovering that one of the turbines had a deep crack in a stainless steel rod. District officials were concerned about the integrity of all four units, which have the same design elements. Out of concern for the health and safety of District employees, the public and the environment, it was decided to keep all four units out of service for further investigation. Temporary repairs were made to all four units, with the last of the four large units being returned to service in April 2014. Additional planned unit outages for permanent repairs are scheduled to occur one unit at a time through 2021, with the first unit completed in 2017. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.

The District maintains mechanical breakdown and business interruption insurance policies. Each generating unit has a separate $500,000 deductible for mechanical breakdown claims. Lost revenues related to business interruption are covered from the date of outage for the first Rocky Reach unit and after 60 days out of service for the three subsequent units. The District's insurance company has made partial payments for both mechanical breakdown and business interruption claims for the first two units. The third unit was disassembled in 2018 and found to have similar mechanical breakdown, thus eligible for insurance recovery. A determination of coverage for the last unit will be made once the unit is disassembled for permanent repairs currently scheduled for 2020.

During 2017, the District received $912,000 and $3.0 million under the mechanical breakdown and business interruption policies, respectively. Mechanical breakdown claims received in the amount of $206,000 were recorded to operating expense under "Other operating and maintenance" to offset the covered repairs expense incurred during 2017. The remaining mechanical breakdown, which is related to repairs incurred in prior years, along with $3.0 million business interruption insurance proceeds were recorded under "Other operating revenues." The $3.0 million insurance proceeds were related to business interruption as a result of outages of the first two units. There were no additional insurance proceeds received in 2018.

Based on currently available information, the District does not anticipate the generating unit repairs and outages to have a significant impact to the District's financial condition.

NOTE 4: LICENSING

The District's hydroelectric projects are licensed under the Federal Power Act of 1920 and subsequent amendments. The District received a 50-year license for the Lake Chelan Project in November 2006 and a 43-year license for the Rocky Reach Project in February 2009 and is implementing license measures for both projects. The Rock Island Project license was issued in January 1989 and expires in December 2028. The costs associated with relicensing the projects have been included in the District's Utility Plant balance as Intangible Assets and are being amortized over the lives of the associated licenses.

The Rock Island Project license contains various operational requirements and environmental protections. Primary measures include continuation of the Habitat Conservation Plan (HCP) for salmon and steelhead, measures to protect bull trout, continuation of maintenance and operation of the Wenatchee Confluence, Kirby Billingsley Hydro, Wenatchee Riverfront and Walla Walla parks. The HCP provides a framework for long-term resolution of certain fish issues at the projects. As also required in the license, the District manages cultural, shoreline, recreation and wildlife resources. All costs associated with the ongoing fulfillment of these Rock Island license measures are recognized as operating expenses in the year incurred.

The license for the Lake Chelan Project is based on a settlement agreement submitted to FERC in October 2003, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The license requires implementation of detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources over the life of the license. In addition, the Lake Chelan Project settlement agreement and license contains some measures that will be carried out by various agencies using funds provided by the District. The present value of these accrued funding obligations was estimated to be $9.4 million as of December 31, 2018 and 2017. The estimate for these funding obligations may increase by measures that are deferred to later years due to inflationary adjustments and may be reduced by measures that are completed.

A summary of accrued funding obligations, accounted for as intangible assets, for the years ended December 31, 2018 and 2017 are as follows:

(amounts in thousands)	2018	2017
Licensing obligation - beginning of year	$ 9,392	$ 9,799
Additions	-	160
Reductions	(31)	(567)
Licensing obligation - end of year	$ 9,361	$ 9,392

The District's Rocky Reach Project license is based on a settlement agreement submitted to FERC in March 2006, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The Rocky Reach Project license requires implementation of various operational requirements and environmental protections. Primary measures include continuation of the HCP for salmon and steelhead, measures to protect and enhance white sturgeon, bull trout, resident fish and pacific lamprey, and operation and maintenance of Beebe Bridge, Chelan Falls, Powerhouse, Entiat, Daroga, Lincoln Rock and Rocky Reach Dam parks. As also required in the license, the District finalized detailed management plans for operations, shoreline erosion, water quality, recreation, cultural and wildlife resources. These plans are now being implemented. The Rocky Reach project license does not contain funding obligations; therefore, future costs of implementing the license requirements cannot be reasonably estimated and no obligation has been recorded. All related costs are recognized as operating expenses in the year incurred.

NOTE 5: REGULATORY DEFERRALS

The Commission has taken various regulatory actions that result in differences between recognition of revenues and expenses for rate-making purposes and their treatment under generally accepted accounting principles for non-regulated entities. These actions result in regulatory assets and liabilities, which are summarized below.

Changes to the balances, and their inclusion in rates, occur only at the direction of the Commission.

The following regulatory balances are as of December 31, 2018 and 2017.

(amounts in thousands)	2018	2017
Regulatory Assets:		
Swap termination payments	$ 17,201	$ 19,771
Conservation expenses	16,545	13,877
Debt issuance costs	5,032	5,732
Fair Value of Investments	4,912	4,765
	$ 43,690	$ 44,145
Regulatory Liabilities:		
Contributed Capital	$ 19,420	$ 19,990
Fair Value of Investments	158	981
	$ 19,578	$ 20,971

Swap Termination Payments. The District terminated three interest rate swaps during 2013 and three interest rate swaps during 2011, incurring swap termination fees in the amount of $15.9 million and $24.6 million, respectively. The termination fees would normally have been reflected as a non-operating expense in the years incurred; however, the Commission approved a resolution providing for deferral of the termination fees as regulatory assets to be amortized over periods of up to 15 years to match the expense with the period in which the payments will be recovered through rates.

Conservation Costs. The District's conservation plans include program expenditures to support compliance with the Energy Independence Act. The District defers conservation expenditures as incurred and amortizes them over the estimated benefit period. The Commission has approved resolutions that require this treatment in order to match the expense with the periods in which the benefit is received and will be reflected in rates.

Debt Issuance Costs. In order to match the costs incurred in conjunction with the issuance of debt with the periods in which the benefit is received and will be reflected in rates, the Commission has approved a resolution that requires these costs to be deferred and amortized over the life of the related bonds. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds.

Fair Value of Investments. The District holds various long-term investments that are carried at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Under Statement No. 31, both realized and unrealized changes in fair value are to be reflected in Net Increase/(Decrease) in Net Position for the period. The Commission, however, approved a resolution providing for the deferral of these gains and losses as regulatory assets and/or liabilities in recognition that any unrealized amounts will not be included in the District's ratemaking process due to the fact that they do not have an impact on cash flows as long as they are held to maturity; and any realized gains or losses will be amortized and included in rates over the remaining life of the investments at the time of sale.

Contributed Capital. Individual contributions exceeding $1 million are deferred as regulatory liabilities and amortized over the life of the related contributed depreciable plant assets. The Commission has approved resolutions that require this treatment in order to offset the earnings effect of these large non-exchange transactions and align the District's recognition of these credits with the periods in which the amounts will be reflected for rate-making purposes.

NOTE 6: LONG-TERM DEBT

Revenue Bonds and Notes Payable

(amounts in thousands)	January 1, 2018	Additions	Reductions	December 31, 2018	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2019, to July 1, 2034 (net unamortized premiums of $215)	$ 12,959	$ -	$ (519)	$ 12,440	$ 515
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2019, to July 1, 2029 (net unamortized premiums of $21)	213,057	11,820	(22,689)	202,188	23,150
Notes Payable, 0.25% to 2%, due June 1, 2019, to June 1, 2031	7,164	-	(737)	6,427	737
Consolidated System Revenue Bonds, 3.25% to 6.897%, due July 1, 2019, to July 1, 2039 (net unamortized premiums of $3,530)	308,820	-	(12,560)	296,260	12,114
	$ 542,000	$ 11,820	$ (36,505)	$ 517,315	$ 36,516

(amounts in thousands)	January 1, 2017	Additions	Reductions	December 31, 2017	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2018, to July 1, 2034 (net unamortized premiums of $244)	$ 13,460	$ -	$ (501)	$ 12,959	$ 490
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2018, to July 1, 2029 (net unamortized premiums of $26)	223,750	12,427	(23,120)	213,057	22,685
Notes Payable, 0.25% to 2%, due June 1, 2018, to June 1, 2031	7,927	-	(763)	7,164	738
Consolidated System Revenue Bonds, 3.14% to 6.897%, due July 1, 2018, to July 1, 2039 (net unamortized premiums of $4,540)	350,378	7	(41,565)	308,820	11,550
	$ 595,515	$ 12,434	$ (65,949)	$ 542,000	$ 35,463

A summary of scheduled debt service requirements to maturity is as follows:

PRINCIPAL AND INTEREST

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2019	$ 36,516	$ 13,253	$ 49,769
2020	53,829	13,166	66,995
2021	51,105	11,927	63,032
2022	52,325	10,733	63,058
2023	53,640	9,442	63,082
2024-2028	227,535	25,516	253,051
2029-2033	102,411	10,281	112,692
2034-2038	9,825	1,761	11,586
2039-2043	1,995	92	2,087
Total	$ 589,181	$ 96,171	$ 685,352

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $589 million also include $76 million of future appreciation on Capital Appreciation Bonds (CABs).

The Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of $61.2 million at December 31, 2018, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (Credit Facility) associated with the bonds expired on March 7, 2013. A replacement standby bond purchase agreement was entered into with Union Bank, N.A. (Union Bank) and dated as of March 1, 2013 (Replacement Credit Facility). The Replacement Credit Facility was extended on April 17, 2015, and was terminated on June 22, 2018. The currently active standby bond purchase agreement was entered into with Barclays Bank PLC (Barclays) as of June 1, 2018 (Active Credit Facility), and will be in effect through July 1, 2022. The District pays Barclays a commitment fee of 35 basis points as prescribed in the Active Credit Facility. If any 2008B bonds are purchased and held by Barclays, the bonds will bear interest at a fluctuating annual rate as specified by the Active Credit Facility, which would be at least 700 basis points. In addition, any 2008B bonds purchased and held under the Active Credit Facility are subject to special mandatory redemption over a five-year period in twenty equal quarterly principal installments. As of December 31, 2018, Barclays does not hold any un-remarketed 2008B bonds.

The District has covenanted in a Consolidated System resolution that it will establish, maintain and collect rates and charges for electrical power and energy, water, wastewater, fiber-optic networks and other services, facilities and commodities sold, furnished or supplied by or through the Consolidated System, adequate net revenues sufficient to pay at least (a) 100% of annual debt service in such fiscal year and (b) together with available funds, 125% of annual debt service in such fiscal year on the Consolidated System Bonds.

The Consolidated System currently includes the District's retail electric utility business operations (referred to as the "Distribution Division"), the Lake Chelan Project, the Fiber and Telecommunications System, the Water System and the Wastewater System. Although these systems have been consolidated into the Consolidated System for financing purposes, all of these systems are accounted for separately and only the four utility business operations have been combined for financial statement reporting purposes (Utility Services).

The District has adopted two additional resolutions confirming and continuing both the Rocky Reach Hydroelectric System and the Rock Island Hydroelectric System. The District has covenanted in these resolutions to fix, establish, maintain and collect rates and charges for electric power and energy, and other services, facilities and commodities sold, furnished or supplied by or through the Rocky Reach System and the Rock Island System, adequate net revenues in each system sufficient to pay 100% of annual debt service in such fiscal year.

As of December 31, 2018 and 2017, the District was in compliance with all debt covenants.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the electric distribution system power is purchased from the District's hydro projects on a cost-plus basis. These intra-district purchases are eliminated in the Statements of Revenues, Expenses and Changes in Net Position. Power purchases from external sources amounted to $53 million and $43 million for 2018 and 2017, respectively, and is included as purchased power in the Statements of Revenues, Expenses and Changes in Net Position. This purchased power is used to meet local load requirements, meet certain contractual obligations, and support the District's hedging strategy.

NOTE 8: EMPLOYEE BENEFIT PLANS

PENSION PLANS

Substantially all of the District's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

All information on the website is the responsibility of the State of Washington. The District's independent auditor has not audited or examined such information, and does not express an opinion or any other form of assurance with respect thereto.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

PERS was established in 1947 and its retirement benefit provisions are contained in chapters 41.34 RCW and 41.40 RCW. PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS PLAN 1

Benefits Provided. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service 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. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment

(COLA) and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions. The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS PLAN 1

Actual Contribution Rates:	Employer	Employee
January through August 2018	12.70%	6.00%
September through December 2018	12.83%	6.00%

For the years ended December 31, 2018 and 2017, the District's actual contributions to the plan were $43,600 and $53,000, respectively.

PERS PLAN 2/3

Benefits Provided. PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions. The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

PERS PLAN 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2*
January through August 2018	12.70%	7.38%
September through December 2018	12.83%	7.41%
Employee PERS Plan 3	n/a	varies

* *For employees participating in the judicial benefit multiplier program (JBM), the contribution rate was 15.2% for the period January through August 2018, and 15.33% for the period September through December 2018.*

For the years ended December 31, 2018 and 2017, the District's actual contributions to the plans were $9.5 million and $8.3 million, respectively.

PENSION LIABILITIES, EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At December 31, 2018 and 2017, the District reported a total pension liability of $36.2 million and $49.7 million, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
(amounts in thousands)	2018	2017
PERS 1	$ 24,403	$ 25,768
PERS 2/3	$ 11,777	$ 23,920

At December 31, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 12/31/18	Proportionate Share 12/31/17	Change in Proportion
PERS 1	.546415%	.543040%	.003375%
PERS 2/3	.689768%	.688436%	.001332%

Employer contribution transmittals received and processed by DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the Schedules of Employer and Nonemployer Allocations.

The collective net pension liability was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

PENSION EXPENSE

For the years ended December 31, 2018 and 2017, the District recognized pension expense as follows:

	Pension Expense	
(amounts in thousands)	2018	2017
PERS 1	$ 2,296	$ 1,569
PERS 2/3	95	3,692
TOTAL	$ 2,391	$ 5,261

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS PLAN 1

(amounts in thousands)	Deferred Outflows of Resources 2018	Deferred Inflows of Resources 2018	Deferred Outflows of Resources 2017	Deferred Inflows of Resources 2017
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	970	-	962
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	1,945	-	1,808	-
TOTAL	$ 1,945	$ 970	$ 1,808	$ 962

PERS PLAN 2/3

(amounts in thousands)	Deferred Outflows of Resources 2018	Deferred Inflows of Resources 2018	Deferred Outflows of Resources 2017	Deferred Inflows of Resources 2017
Differences between expected and actual experience	$ 1,444	$ 2,062	$ 2,423	$ 787
Net difference between projected and actual investment earnings on pension plan investments	-	7,227	-	6,376
Changes of assumptions	138	3,352	254	-
Changes in proportion and differences between contributions and proportionate share of contributions	181	-	333	-
Contributions subsequent to the measurement date	2,846	-	2,615	-
TOTAL	$ 4,609	$ 12,641	$ 5,625	$ 7,163

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

(amounts in thousands)

Year ended December 31:	PERS Plan 1	PERS Plan 2/3
2019	$ 1,987	$ 1,841
2020	(212)	(2,361)
2021	(636)	(4,405)
2022	(164)	(1,620)
2023	-	(588)
Thereafter	-	(900)
Total	$ 975	$ (8,033)

Deferred outflows of resources 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 in the year ended December 31, 2019.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Assumptions. The total pension liability (TPL) for each of the PERS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study and the 2017 Economic Experience Study .

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.7% total economic inflation; 3.5% salary inflation
- **Salary increases:** In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

Discount Rate. The discount rate used to measure the total pension liability for all PERS plans was 7.4%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1, plan liability). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return. OSA selected a 7.4% 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 and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.7%
Tangible Assets	7%	4.9%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
	100%	

SENSITIVITY OF NET PENSION LIABILITY

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

(amounts in thousands)	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 29,990	$ 24,403	$ 19,564
PERS 2/3	$ 53,869	$ 11,777	$ (22,733)

PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

DEFERRED COMPENSATION PLANS

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (457 Plan). The 457 Plan, available to District employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with the 457 Plan, the District has placed the 457 Plan assets into a separate trust for the exclusive benefit of plan participants and beneficiaries. Accordingly, plan assets and the corresponding liability are not included on the District's financial statements.

The District also offers its employees a 401(a) employer matching plan. The 401(a) is a qualified, tax deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) Plan, the District will match each employee's contribution to the 457 Plan at a rate of 50% with a cap of 5% of an employee's annual base salary up to a maximum of $9,250 or up to a maximum of $12,250 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2018 and 2017 were $2.3 million and $2.1 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

PLAN DESCRIPTION

The District administers a single-employer defined benefit healthcare plan ("the retiree medical plan"). The plan provides other postemployment benefits (OPEB) for retirees and their dependents. The retiree medical plan does not issue a publicly available financial report.

BENEFITS PROVIDED

The retiree medical plan provides healthcare and vision insurance until the age of 65 for retirees and their spouses and until the age of 26 for children. Insurance coverage is provided through the District's group health insurance plan, which covers both active and retired members.

EMPLOYEES COVERED BY BENEFIT TERMS

At December 31, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	-
Active Employees	730
Total	754

CONTRIBUTIONS

The District's subsidy of the cost of 2018 and 2017 premiums for eligible retired plan members and their spouses amounted to $54,000 and $83,000, respectively. Plan members receiving benefits contributed 79% of the premium costs for the years 2018 and 2017. Future subsidies will be provided by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

NET OPEB ASSET

As of December 31, 2018 and 2017 the retiree medical plan was fully funded. The District's net OPEB asset was measured as of January 1, 2017, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. Actuarial update procedures were used to roll forward the service cost and the total OPEB liability to the December 31, 2018 measurement date.

ACTUARIAL ASSUMPTIONS

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate - 3.0%

Salary increases - 3.75%

Investment rate of return - 5.0% based on historical returns of the investments currently held in the OPEB Trust Fund.

Healthcare cost trend rates - A healthcare trend is not used in the valuation as retiree premiums are assumed to be age-adjusted and changes in the District's subsidy are solely dependent on inflation.

Rates of retirement, mortality, withdrawal and disability are all based on the rates published by the Office of the State Actuary for PERS plan participants.

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

Fund Type	% of Total Portfolio	Expected Long-Term Real Rate of Return
Domestic Equity	30%	3.6%
Foreign Equity	11%	5.9%
Emerging Equity	5%	8.3%
Fixed Income	37%	(0.5%)
Real Estate	5%	3.1%
Commodities	4%	0.6%
1 Month Treasury Bills	8%	(2.6%)
	100%	

DISCOUNT RATE

The discount rate used to measure the total OPEB liability was 4.7%. Based on expected 5% long-term rate of return on the OPEB plan's assets, the fiduciary net position was only projected to be available to make projected OPEB payments for plan participants through 2043. Therefore, the expected long-term rate of return on the plan's assets has been blended with the December 29, 2016 rate of 3.78% in the 20-year General Obligation Municipal Bond Index published by Bond Buyer.

The discount rate decreased since the prior valuation due to a change from 7% to 5% in the long-term expected rate of return on the OPEB plan assets.

CHANGES IN THE NET OPEB (ASSET)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) (a)-(b)
Balances at 1/1/2018	$ 820,150	$ (1,371,296)	$ (551,146)
Changes for the year:			
Service cost	32,900	-	32,900
Interest	39,399	-	39,399
Differences between expected and actual experience	-	126,184	126,184
Contributions – employer	-	-	-
Contributions - retirees	200,871	(200,871)	-
Net investment income	-	(67,826)	(67,826)
Benefit payments	(230,412)	230,412	-
Administrative expense	-	17,421	17,421
Net changes	42,758	105,320	148,078
Balances at 12/31/2018	$ 862,908	$ (1,265,976)	$ (403,068)

SENSITIVITY OF THE NET OPEB ASSET TO CHANGES IN THE DISCOUNT RATE. The following presents the net OPEB asset of the District, as well as what the District's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (3.7%) or 1-percentage-point higher (5.7%) than the current discount rate:

	1% Decrease (3.7%)	Current Discount Rate (4.7%)	1% Increase (5.7%)
Net OPEB (asset)	$(333,159)	$(403,068)	$(469,856)

OPEB EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the years ended December 31, 2018 and 2017, the District recognized OPEB expense of $23,308 and $7,618 respectively. At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Changes of assumptions	-	-	-	-
Net difference between actual and projected earnings	100,947	-	71,467	95,290
Total	$ 100,947	$ -	$ 71,467	$ 95,290

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:		
2019	$	1,414
2020		1,414
2021		1,416
2022		25,236
2023		-
Thereafter		-
Total	$	29,480

PAYABLE TO THE OPEB PLAN

At December 31, 2018, the District reported a payable of $19,706 for the outstanding amount of retiree contributions that had been collected by the District but not yet remitted to the retiree medical plan trust.

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rocky Reach and Rock Island hydroelectric production facilities. The outstanding bond issues are secured by a pledge of the net revenues of each project. Each project has an external requirement to be accounted for separately, and investors in the revenue bonds rely solely on the revenue generated by the individual projects for repayment. Summary financial information as of and for the years ended December 31, 2018 and 2017, for both projects is presented below. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statement of Revenues, Expenses and Changes in Net Position.

CONDENSED STATEMENTS OF NET POSITION

(amounts in thousands)	Rocky Reach 2018	Rock Island 2018	Rocky Reach 2017	Rock Island 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 8,792	$ 4,691	$ 8,494	$ 5,672
Restricted assets – current	2,246	6,405	2,831	8,103
Total current assets	11,038	11,096	11,325	13,775
Utility plant, net	293,129	396,661	300,516	360,829
Restricted assets – noncurrent	39,008	58,481	51,034	72,352
Other assets	8,368	17,538	7,722	17,818
Deferred outflows of resources	1,761	4,091	2,068	4,531
Total assets and deferred outflows of resources	$ 353,304	$ 487,867	$ 372,665	$ 469,305
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 17,096	$ 46,375	$ 19,072	$ 46,984
Long-term debt	123,204	276,421	137,493	294,807
Other liabilities	26,548	28,144	31,090	32,024
Total liabilities	166,848	350,940	187,655	373,815
Deferred inflows of resources	3,664	27,462	2,317	27,579
Net Position:				
Invested in capital assets, net of related debt	280,328	196,401	287,478	151,462
Restricted	32,136	55,757	44,773	71,351
Unrestricted	(129,672)	(142,693)	(149,558)	(154,902)
Total net position	182,792	109,465	182,693	67,911
Total liabilities, deferred inflows of resources and net position	$ 353,304	$ 487,867	$ 372,665	$ 469,305

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2018	Rock Island 2018	Rocky Reach 2017	Rock Island 2017
Operating revenues	$ 96,512	$ 104,449	$ 100,598	$ 102,858
Less:				
Operating expenses	58,643	47,089	56,801	44,427
Depreciation and amortization	12,313	10,790	17,299	10,322
Operating income	25,556	46,570	26,498	48,109
Other expense	9,757	21,939	10,947	23,035
Income before capital contributions and interfund equity transfers	15,799	24,631	15,551	25,074
Capital contributions	-	623	-	1,097
Interfund equity transfers	(15,700)	16,300	290	192
Change in net position	99	41,554	15,841	26,363
Total net position – beginning of year	182,693	67,911	166,852	41,548
Total net position - end of year	$ 182,792	$ 109,465	$ 182,693	$ 67,911

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2018	Rock Island 2018	Rocky Reach 2017	Rock Island 2017
Net cash provided (used) by:				
Operating activities	$ 35,917	$ 57,618	$ 41,664	$ 57,953
Capital and related financing activities	(33,763)	(91,333)	(41,645)	(72,384)
Investing activities	(3,393)	32,264	(956)	12,311
Net increase /(decrease)	(1,239)	(1,451)	(937)	(2,120)
Beginning cash and cash equivalents	3,855	4,394	4,792	6,514
Ending cash and cash equivalents	$ 2,616	$ 2,943	$ 3,855	$ 4,394

NOTE 11: SELF-INSURANCE

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; workers compensation; and health care of its employees. The District has elected to cover these risks primarily through self-insurance programs. Secondarily, the District has purchased commercial excess liability insurance for claims beyond the deductible amounts. The accrual and payment of claims for the years ended December 31, 2018 and 2017 is summarized in the following table for each insurance program:

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2018	$ -	$ 97	$ 911	$ 39
Claims accrued	-	1,449	14,467	1,161
Claims paid	-	(969)	(14,128)	(1,167)
Claims Liability as of December 31, 2018	$ -	$ 577	$ 1,250	$ 33

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2017	$ 25	$ 88	$ 1,901	$ 157
Claims accrued	162	639	12,163	1,145
Claims paid	(187)	(630)	(13,153)	(1,263)
Claims Liability as of December 31, 2017	$ -	$ 97	$ 911	$ 39
Commercial Insurance Deductible as of December 31, 2018 and 2017	Up to $2,000,000 depending on line of coverage	$500,000 per incident	$225,000 per incident	N/A

NOTE 12: COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

In June 2004, the Federal Energy Regulatory Commission (FERC) ordered the incorporation of the Anadromous Fish Agreements and Habitat Conservation Plans (HCPs) into the licenses for the Rocky Reach and Rock Island projects. The Rocky Reach Project HCP was included in the new FERC license issued in February 2009. The HCPs provide a framework for long-term resolution of certain fish issues at the projects. The District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation and the Yakama Nation are signatories to the HCPs. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs satisfy the District's obligations for hydro project operations under the ESA for these species and in addition, protect other anadromous salmon including sockeye salmon, summer/fall Chinook and coho salmon. Collectively, these five species are known as the "Plan Species." In addition to the ESA, the HCPs are also intended to satisfy the projects' obligations for all Plan Species under the Federal Power Act, the Fish and Wildlife Coordination Act, the Essential Fish Habitat provisions of the Magnuson-Stevens Fishery Conservation and Management Act, the Pacific Northwest Electric Power Planning and Conservation Act and Title 77 RCW of the State of Washington.

The District's commitments under the HCPs include projects and programs to improve fish passage, to provide capacity for and fund hatchery operations and to contribute annual funding for the protection and restoration of tributary habitat, which when combined and successfully achieved culminates in obtaining the desired HCP outcome of No Net Impact (NNI). In February 2013, the District submitted its first 10-year comprehensive progress reports for Rock Island and Rocky Reach projects documenting the progress toward meeting NNI. The successful achievement of combined adult and juvenile project survival standards for spring migrants, necessary funding and capacity improvements for hatchery operations and annual contributions to the tributary habitat fund resulted in a determination by the HCP Coordinating Committee (designated decision body) that the District had met the obligations of the HCPs to warrant approval of NNI status. The District will now be responsible during the next 10 years to manage programs and projects with a level of protection and tools equivalent to that which was used to achieve NNI status. Each 10-year cycle the District will enter into a one-year testing mode to assess project survival, verifying protection levels continue to meet the HCP standards. The 10-year assessments will take place for the duration of the HCPs.

The Columbia River Distinct Population Segment of bull trout is listed by the USFWS as a threatened species under the ESA, and a Bull Trout Recovery Team has been established, of which the District is an active member. A draft Upper Columbia River Bull Trout Recovery Plan has been developed, which contains recommendations for recovering bull trout in the Columbia River Basin. Additionally, the Mid-Columbia Recovery Unit Implementation Plan (RUIP), in support of the Bull Trout Recovery Plan, was finalized in September 2015 The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS's biological opinion on potential effects of the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. This plan was later replaced with the Comprehensive Bull Trout Management Plan as required by the Comprehensive Settlement Agreement for the Rocky Reach Project Relicensing. The Bull Trout Management Plan was approved in the new license and provides for protection, mitigation and enhancement measures. Additionally, the USFWS filed its Biological Opinion for the Rocky Reach Project in December 2008 concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify critical habitat. The USFWS Biological Opinion provided terms and conditions of an incidental take permit and required five reasonable and prudent measures be implemented to minimize the incidental take of bull trout. In September 2010, the USFWS formally designated critical habitat for bull trout in the upper mid-Columbia river, including the project areas for Rock Island and Rocky Reach hydros.

Revised Washington State Department of Ecology (WDOE) water quality standards (WQS) became effective in August 2017. These standards are applicable to the Columbia River basin and address total dissolved gas and temperature for the Columbia and Snake Rivers. As part of the relicensing process for the Rocky Reach and Lake Chelan projects, the District obtained Water Quality Certifications issued by the WDOE that are consistent with the revised WQS. The WDOE allows the District a ten-year window to demonstrate compliance with the new WQS and can require the District to conduct further studies, implement further operational changes or even, in a worst case event, provide structural changes to meet requirements. Compliance with the conditions set forth in these WQS place the District on a path forward in maintaining or achieving water quality standards. Water Quality Certifications may require that further studies be conducted to document methods implemented to address compliance of the WQS during the ten-year window and beyond. Based on current evaluations and testing results, the determination of what, if any, additional measures are necessary to address WQS requirements and future costs of implementing those measures cannot be reasonably estimated. Therefore, currently no obligation has been recorded, and all related costs are recognized in the year incurred.

ASSET MANAGEMENT PROGRAM

The District's capital improvement programs include replacement of generators, turbines and governor hydraulic systems and rotor refurbishment in the first powerhouse at Rock Island Dam. The District has committed by contract to fulfill these programs, which are projected to be substantially complete by 2022. The contractually committed amount on the future work to be performed on these major capital programs is approximately $45.3 million as of December 31, 2018.

The District also has contractual commitments relating to other significant capital improvement projects including fiber expansion, Customer Information System upgrade, digital turbine governors, digital mobile radio system, new or upgraded building facilities and wastewater treatment facility improvement projects over the next few years totaling approximately $17.6 million as of December 31, 2018.

Additionally, the District has contractual commitments relating to large projects at Rocky Reach Dam for turbine repairs, a stator winding replacement and fabrication of new head covers. As of December 31, 2018, the remaining contractual commitments for this work totals approximately $11.3 million.

POWER MARKETING

As of December 31, 2018, the District had entered into forward block contracts obligating it to deliver approximately 4,944,000 MWh of energy at various times during each of the years in the period 2019-2023. The District expects to receive approximately $174.0 million from the purchasers of this power. In addition, as part of its comprehensive forward energy hedging strategy, the District has entered into several slice output contracts, which provide a counterparty a percentage share of hydropower production for a fixed payment. Under the slice output contracts, the District has committed to delivering varying percentages of the hydropower production of its Rocky Reach and Rock Island projects during each of the years in the period 2019-2030, in exchange for approximately $380.1 million.

The District has committed to purchase approximately 3,002,000 MWh of energy at a cost of approximately $85.6 million to fulfill these power marketing obligations, meet District load requirements and mitigate credit risk. The District believes it has sufficient internal resources or has acquired sufficient external resources to complete these transactions.

ENERGY NORTHWEST

In August 2001, the District executed a 20-year contract to purchase power from Energy Northwest's Nine Canyon Wind Project (the Project). Energy Northwest, a municipal corporation and a joint operating agency of the State of Washington, also was a purchaser under the Power Purchase Agreement. Energy Northwest has since assigned its share of the Project to two additional utilities.

The Project was constructed in phases. The District is a participant in phases I and II of the Project, which have a combined generating capacity of 64 MW. In exchange for paying certain project costs after phase I and II commenced commercial operation, including debt service on the Wind Project Revenue Bonds issued by Energy Northwest to finance the construction of the Project, the District received a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2018, the District's share of bond principal was $3.7 million and was not to exceed $4.6 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

The District declined to participate in phase III of the Project. In October 2006, the District signed a second amended power purchase agreement, reducing the District's share in the combined project to approximately 8.3% once phase III began commercial operation and extending the expiration of the agreement to 2030. The District's debt obligations related to phases I and II remain the same, but its percentage share of the combined project output and combined operation and maintenance costs were reduced as a result of not participating in phase III.

For complete financial statements for Energy Northwest including the Nine Canyon Project, please write: Energy Northwest, P.O. Box 968, Richland, Washington, 99352-0968.

The Report of Independent Auditors included with these financial statements relates solely to historical financial information of the District and does not relate to Energy Northwest or any other entity.

CLAIMS AND LITIGATION

The District is involved in various claims arising in the normal course of business. The District does not believe that the ultimate outcome of these matters will have a material impact on its financial position, results of operations or cash flows.

NOTE 13: SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION SERVICES

The District has developed a fiber-optic network to provide a backbone for the District's utility communication use, as well as infrastructure over which to provide wholesale telecommunications services in accordance with the authority granted to PUDs by state law. Private service providers deliver services over the District's infrastructure, including high-speed internet access, telephone and television to end-users. These private firms set final end-user pricing and are directly responsible for billing each end-user. The District bills the service providers for wholesale telecommunications services.

Following is a summary of the results of operations of the District's fiber-optic activities included in the accompanying financial statements. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statements of Revenues, Expenses and Changes in Net Position.

(amounts in thousands)	2018	2017
Operating revenues		
Wholesale fiber services	$ 6,601	$ 6,395
Fiber leasing	755	683
Intradistrict revenues	3,315	3,311
Total operating revenues	10,671	10,389
Operating expenses		
Administrative and general	1,175	1,613
Repairs and maintenance	1,429	1,165
Other operating	3,246	3,234
Depreciation expense	3,052	2,609
Total operating expense	8,902	8,621
Operating income	1,769	1,768
Other income	300	192
Net income before capital contributions	2,069	1,960
Capital contributions	169	129
Interfund equity transfers	2,500	2,100
Change in net position	$ 4,738	$ 4,189

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2018 and 2017:

(amounts in thousands)	2018	2017
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 19,554	$ 15,870
Utility plant, net and other assets	51,313	49,910
Total assets	70,867	65,780
Deferred outflows of resources	283	341
Total assets and deferred outflows of resources	$ 71,150	$ 66,121
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 2, 822	$ 2,738
Deferred inflows of resources	589	382
Net position	67,739	63,001
Total liabilities, deferred inflows of resources and net position	$ 71,150	$ 66,121

The District's capital investment in telecommunications plant and equipment, net of retirements, for 2018 and 2017 was $4.3 million and $3.2 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2018, was $96.9 million. The capital investment, as well as cumulative net losses, was funded by interfund equity transfers.

PERS PLAN 1

Schedule of the District's Proportionate Share of the Net Pension Liability

(dollars in thousands)	2018	2017	2016	2015	2014
Proportion of the net pension liability	.546415%	.543040%	.542981%	.531455%	.542102%
Proportionate share of the net pension liability	$ 24,403	$ 25,768	$ 29,161	$ 27,800	$ 27,309
Covered-employee payroll	$ 342	$ 448	$ 447	$ 630	$ 765
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	7,135.38%	5,751.79%	6,523.71%	4,412.70%	3,569.80%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

PERS PLAN 2/3

Schedule of the District's Proportionate Share of the Net Pension Liability

(dollars in thousands)	2018	2017	2016	2015	2014
Proportion of the net pension liability	.689768%	.688436%	.681594%	.672073%	.673703%
Proportionate share of the net pension liability	$ 11,777	$ 23,920	$ 34,318	$ 24,014	$ 13,618
Covered-employee payroll	$ 74,348	$ 69,866	$ 65,077	$ 64,259	$ 58,959
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	15.84%	34.24%	52.73%	37.37%	23.10%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

PERS PLAN 1

Schedule of the District's Contributions

(dollars in thousands)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 44	$ 53	$ 50	$ 64	$ 70	$ 74	$ 75	$ 78	$ 69	$ 153
Contributions in relation to the contractually required contribution	(44)	(53)	(50)	(64)	(70)	(74)	(75)	(78)	(69)	(153)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 342	$ 448	$ 447	$ 630	$ 765	$ 913	$ 1,047	$ 1,332	$ 1,301	$ 2,152
Contributions as a percentage of covered-employee payroll	12.87%	11.83%	11.18%	10.21%	9.21%	8.11%	7.20%	5.82%	5.31%	7.11%

PERS PLAN 2/3

Schedule of the District's Contributions

(dollars in thousands)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 9,469	$ 8,328	$ 7,276	$ 6,539	$ 5,428	$ 4,575	$ 3,943	$ 3,284	$ 2,795	$ 3,514
Contributions in relation to the contractually required contribution	(9,469)	(8,328)	(7,276)	(6,539)	(5,428)	(4,575)	(3,943)	(3,284)	(2,795)	(3,514)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 74,348	$ 69,866	$ 65,077	$ 64,259	$ 58,959	$ 56,186	$ 54,778	$ 53,085	$ 52,632	$ 51,144
Contributions as a percentage of covered-employee payroll	12.74%	11.92%	11.18%	10.18%	9.21%	8.14%	7.20%	6.19%	5.31%	6.87%

SCHEDULE OF CHANGES IN NET OPEB ASSET AND RELATED RATIOS

Fiscal Year End Date	Fiduciary Net Position (a)	Total OPEB Liability (b)	Net OPEB (Asset) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	Net OPEB Asset as a Percentage of Covered Payroll ((b – a) / c))
12/31/18	$ 1,265,976	$ 862,908	$ (403,068)	147%	$ 63,455,719	(0.64)%
12/31/17	1,371,296	820,150	(551,146)	167%	61,162,139	(0.90)%
12/31/16	1,493,891	1,030,417	(463,474)	145%	58,951,459	(0.79)%
12/31/15	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/14	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/13	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/12	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/11	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%
12/31/10	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%
12/31/09	1,791,487	1,573,100	(218,387)	114%	49,003,415	(0.45)%

Note to Schedule:

Change of assumptions*. As of the January 1, 2017 actuarial valuation, the long-term rate of return was reduced from 7% to 5% to better reflect the historical returns of the investments currently held in the OPEB Trust Fund.*

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COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2018, WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2018	2017
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 57,993	$ -	$ -	$ (993)	$ 57,000	$ 59,248
Wholesale sales	96,313	104,302	12,826	249,605	7,377	-	(166,600)	303,823	283,889
Other operating revenues	199	147	1,076	34,521	-	20,869	(31,114)	25,698	29,720
	96,512	104,449	13,902	342,119	7,377	20,869	(198,707)	386,521	372,857
OPERATING EXPENSES									
Purchased power and water	-	-	-	216,487	-	-	(163,286)	53,201	42,976
Generation	57,357	46,479	10,281	-	-	-	(15,193)	98,924	90,755
Utility services	-	-	-	67,628	-	-	(17,950)	49,678	48,584
Other operation and maintenance	-	-	-	-	-	17,101	(2,278)	14,823	11,942
Taxes	1,286	610	83	6,562	-	-	-	8,541	8,891
Depreciation and amortization	12,313	10,790	1,902	14,793	-	4,388	-	44,186	47,534
	70,956	57,879	12,266	305,470	-	21,489	(198,707)	269,353	250,682
OPERATING INCOME (LOSS)	25,556	46,570	1,636	36,649	7,377	(620)	-	117,168	122,175
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(624)	(12,108)	-	(33)	(12,437)	-	-	(25,202)	(26,718)
Interest on intersystem loans	(9,520)	(9,377)	(626)	-	19,523	-	-	-	-
Amortization of regulatory assets - debt issuance costs	(19)	(264)	-	-	(417)	-	-	(700)	(740)
Investment income	1,218	2,324	140	4,996	2,197	560	-	11,435	7,959
Federal subsidy income	-	-	-	-	590	-	-	590	587
Other	(812)	(2,514)	(1,139)	4,005	(3,104)	(393)	-	(3,957)	(3,601)
	(9,757)	(21,939)	(1,625)	8,968	6,352	167	-	(17,834)	(22,513)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS & INTERFUND EQUITY TRANSFERS	15,799	24,631	11	45,617	13,729	(453)	-	99,334	99,662
CAPITAL CONTRIBUTIONS	-	623	-	5,311	-	-	-	5,934	5,302
INTERFUND EQUITY TRANSFERS	(15,700)	16,300	-	(600)	-	-	-	-	-
CHANGE IN NET POSITION	99	41,554	11	50,328	13,729	(453)	-	105,268	104,964
TOTAL NET POSITION									
Beginning of year	182,693	67,911	77,361	464,289	90,739	10,214	-	893,207	787,780
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	463
Beginning of year, as adjusted	182,693	67,911	77,361	464,289	90,739	10,214	-	893,207	788,243
TOTAL NET POSITION									
End of year	$ 182,792	$ 109,465	$ 77,372	$ 514,617	$ 104,468	$ 9,761	$ -	$ 998,475	$ 893,207

1. *Eliminating entries reduce operating revenue and expense to account for intradistrict transactions.*

COMBINING SCHEDULE OF ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AND LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2018	2017
CURRENT ASSETS									
Cash and cash equivalents	$ 523	$ 608	$ 366	$ 14,991	$ 5,815	$ 1,003	$ -	$ 23,306	$ 20,968
Investments	1,929	2,248	1,352	55,423	21,496	3,706	-	86,154	85,290
Accounts receivable, net	2,180	1,314	25	33,942	-	23	-	37,484	27,736
Accrued interest receivable	175	129	18	782	498	78	-	1,680	1,937
Materials and supplies	3,525	-	-	9,459	-	228	-	13,212	12,831
Prepayments and other	431	365	64	276	-	18	-	1,154	1,488
Current portion of regulatory assets	29	27	-	51	2,865	6	-	2,978	2,978
	8,792	4,691	1,825	114,924	30,674	5,062	-	165,968	153,228
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	478	1,364	1	34	-	432	-	2,309	2,798
Investments	1,768	5,041	-	122	-	1,596	-	8,527	11,379
	2,246	6,405	1	156	-	2,028	-	10,836	14,177
TOTAL CURRENT ASSETS	11,038	11,096	1,826	115,080	30,674	7,090	-	176,804	167,405
UTILITY PLANT									
In service, at original cost	644,044	615,333	122,489	580,329	-	106,935	-	2,069,130	2,001,513
Construction work in progress	2,283	77,255	1,431	5,989	-	13,880	-	100,838	85,677
Less-accumulated depreciation	(353,198)	(295,927)	(35,499)	(261,405)	-	(77,931)	-	(1,023,960)	(985,716)
	293,129	396,661	88,421	324,913	-	42,884	-	1,146,008	1,101,474
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	1,615	971	-	-	277	-	-	2,863	5,555
Investments	37,393	57,510	-	494	18,479	6,444	-	120,320	144,466
	39,008	58,481	-	494	18,756	6,444	-	123,183	150,021
OTHER ASSETS									
Long-term receivables, net	-	-	-	406	-	-	-	406	506
Long-term investments	7,788	9,075	5,456	223,743	86,779	14,962	-	347,803	240,725
Regulatory assets, net	529	3,118	54	18,962	17,814	235	-	40,712	41,167
Derivative instrument asset	-	5,294	-	-	-	-	-	5,294	6,405
Other	51	51	-	12,624	-	415	(12,386)	755	875
	8,368	17,538	5,510	255,735	104,593	15,612	(12,386)	394,970	289,678
TOTAL ASSETS	351,543	483,776	95,757	696,222	154,023	72,030	(12,386)	1,840,965	1,708,578
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	2,229	-	-	2,880	-	-	5,109	6,063
Pensions	1,761	1,862	269	2,662	-	-	-	6,554	7,433
Other post-employment benefits	-	-	-	-	-	101	-	101	-
	1,761	4,091	269	2,662	2,880	101	-	11,764	13,496
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 353,304	$ 487,867	$ 96,026	$ 698,884	$ 156,903	$ 72,131	$ (12,386)	$1,852,729	$1,722,074

1. Eliminating entries reduce assets and liabilities to account for intradistrict transactions.

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2018	2017
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 11,877	$ 28,787	$ 1,903	$ 737	$ (6,367)	$ -	$ -	$ 36,937	$ 35,894
Current portion of unearned wholesale power sales	693	690	-	12,934	625	-	-	14,942	8,902
Warrants and accounts payable	7,007	17,759	1,696	18,045	8	10,828	-	55,343	46,580
Accrued taxes	1,329	648	85	1,685	-	287	-	4,034	4,139
Accrued interest	306	144	-	16	5,719	-	-	6,185	6,462
Intersystem payables (receivables)	(4,146)	(1,684)	(726)	12,841	-	(6,285)	-	-	-
Accrued vacation and other	30	31	3	63	-	15,220	-	15,347	14,999
	17,096	46,375	2,961	46,321	(15)	20,050	-	132,788	116,976
LONG-TERM DEBT									
Revenue bonds and notes payable	12,440	202,188	-	6,427	296,260	-	-	517,315	542,000
Intersystem loans payable (receivable)	122,641	103,020	6,176	(16,749)	(257,332)	42,244	-	-	-
Less-current maturities	(11,877)	(28,787)	(1,482)	(737)	6,367	-	-	(36,516)	(35,463)
	123,204	276,421	4,694	(11,059)	45,295	42,244	-	480,799	506,537
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	7,594	8,017	-	127,602	7,072	-	(12,386)	137,899	92,226
Net pension liability	9,704	10,283	1,495	14,698	-	-	-	36,180	49,688
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	8,940	-	-	-	-	8,940	8,960
Other liabilities	-	594	-	-	-	-	-	594	384
	26,548	28,144	10,435	142,300	7,072	-	(12,386)	202,113	169,758
TOTAL LIABILITIES	166,848	350,940	18,090	177,562	52,352	62,294	(12,386)	815,700	793,271
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	5,294	-	-	-	-	-	5,294	6,405
Pensions	3,651	3,868	562	5,530	-	-	-	13,611	8,125
Regulatory liabilities	13	18,300	2	1,175	83	5	-	19,578	20,971
Other postemployment benefits	-	-	-	-	-	71	-	71	95
	3,664	27,462	564	6,705	83	76	-	38,554	35,596
TOTAL NET POSITION	182,792	109,465	77,372	514,617	104,468	9,761	-	998,475	893,207
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 353,304	$ 487,867	$ 96,026	$ 698,884	$ 156,903	$ 72,131	$ (12,386)	$ 1,852,729	$ 1,722,074

1. *Eliminating entries reduce assets and liabilities to account for intradistrict transactions.*

COMBINING SCHEDULE OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018, WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 95,590	$ 104,265	$ 13,899	$ 383,355	$ 6,752	$ 20,862	$ (198,981)	$ 425,742	$ 370,053
Payments to suppliers	(31,725)	(20,486)	(6,351)	(247,155)	(63)	(14,726)	198,981	(121,525)	(121,533)
Payments to employees	(27,948)	(26,161)	(4,133)	(36,785)	-	(708)	-	(95,735)	(89,566)
Insurance proceeds	-	-	-	-	-	-	-	-	3,943
Net cash provided by operating activities	35,917	57,618	3,415	99,415	6,689	5,428	-	208,482	162,897
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(8,133)	(50,031)	(863)	(20,671)	-	(11,334)	-	(91,032)	(65,330)
Additions to pooled assets	102	86	12	-	-	(200)	-	-	-
Proceeds from sale of plant	25	4	-	191	-	40	-	260	210
Principal (paid) received on debt & intersystem loans	(15,475)	(29,617)	(1,618)	(5,476)	8,457	8,267	-	(35,462)	(64,338)
Interest (paid) received on debt & intersystem loans	(10,157)	(9,665)	(626)	(34)	6,820	-	-	(13,662)	(15,216)
Capital contributions	-	96	-	4,415	-	-	-	4,511	4,668
Other	(125)	(2,206)	(1,137)	(542)	(214)	40	-	(4,184)	319
Net cash (used in) provided by capital and related financing activities	(33,763)	(91,333)	(4,232)	(22,117)	15,063	(3,187)	-	(139,569)	(139,687)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	11,339	13,619	418	(80,173)	(24,304)	(2,901)	-	(82,002)	(35,235)
Interest on investments	1,268	2,436	143	4,923	2,448	562	-	11,780	7,699
Long-term receivables	-	-	-	100	-	-	-	100	117
Other, net	(16,000)	16,209	157	(1)	-	1	-	366	(634)
Net cash (used in) provided by investing activities	(3,393)	32,264	718	(75,151)	(21,856)	(2,338)	-	(69,756)	(28,053)
NET DECREASE IN CASH & CASH EQUIVALENTS	(1,239)	(1,451)	(99)	2,147	(104)	(97)	-	(843)	(4,843)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,855	4,394	466	12,878	6,196	1,532	-	29,321	34,164
CASH & CASH EQUIVALENTS, END OF YEAR	$ 2,616	$ 2,943	$ 367	$ 15,025	$ 6,092	$ 1,435	$ -	$ 28,478	$ 29,321

1. Eliminating entries reduce receipts and payments to account for intradistrict transactions.

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income (loss)	$ 25,556	$ 46,570	$ 1,636	$ 36,649	$ 7,377	$ (620)	$ -	$ 117,168	$ 122,174
Depreciation and amortization	12,313	10,790	1,902	14,793	-	4,388	-	44,186	47,534
(Increase) decrease in operating assets:									
Accounts receivable, net	(507)	227	(3)	(9,458)	-	(7)	-	(9,748)	4,143
Materials and supplies	(491)	-	-	(6)	-	116	-	(381)	(333)
Prepayments	(23)	(19)	(3)	392	-	(13)	-	334	(339)
Net OPEB asset	-	-	-	-	-	148	-	148	(87)
Other	300	300	-	2,043	-	-	-	2,643	(881)
Deferred outflows of resources	307	226	(21)	367	-	(101)	-	778	3,857
Increase (decrease) in operating liabilities:									
Current portion unearned wholesale power sales	-	-	-	6,040	-	-	-	6,040	-
Accounts payable	3,139	1,041	145	6,809	(63)	1	-	11,072	(4,603)
Accrued taxes	14	(8)	(19)	(134)	-	42	-	(105)	313
Accrued vacation and other	(1,538)	494	(360)	254	-	1,498	-	348	774
Unearned wholesale revenue	(414)	(411)	-	46,457	(625)	-	-	45,007	(4,170)
Customer deposits	-	-	-	(1,802)	-	-	-	(1,802)	896
Net pension liability	(4,128)	(3,679)	(154)	(5,547)	-	-	-	(13,508)	(13,790)
Deferred inflows of resources	1,389	2,087	292	2,558	-	(24)	-	6,302	7,409
Net cash provided by operating activities	$ 35,917	$ 57,618	$ 3,415	$ 99,415	$ 6,689	$ 5,428	$ -	$ 208,482	$ 162,897
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ (2,365)	$ (2,723)	$ 908	$ (151)	$ -	$ 3,824	$ -	$ (507)	$ 3,440
Capital contributions	-	-	-	853	-	-	-	853	65
Amortization of regulatory assets	-	-	-	1,977	-	-	-	1,977	(1,595)

1. *Eliminating entries reduce receipts and payments to account for intradistrict transactions.*

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Bond Series	Trustee/Registar/Paying Agent
Consolidated System:	
2008B	U.S. Bank N.A.
2009C & D	U.S. Bank N.A.
2011A, B & C	U.S. Bank N.A.
Rocky Reach Hydroelectric System:	
2009A	U.S. Bank N.A.
Columbia River-Rock Island Hydroelectric System:	
1997A	PUD No. 1 of Chelan County
2009A	U.S. Bank N.A.

Addresses:

Public Utility District No. 1 of Chelan County	**U.S. Bank N.A. PD-WA-T7CT**	**U.S. Bank Global Corporate Trust Services**
PO Box 1231	1420 Fifth Ave., 7th Floor	111 Fillmore Ave. E
Wenatchee, WA 98807	Seattle, WA 98101	St. Paul, MN 55107
(509) 663-8121	(206) 344-4682	Mail Station: EP-MN-WS2N
		(800) 934-6802

Continuing Disclosure Information

The following information is based on unaudited financial information and should be used in conjunction with the District's financial statements as a whole, including the footnotes and other supplementary information contained in this document.

In addition, the information contains estimates and projections prepared by the District. Such estimates and projections are based upon a number of assumptions with respect to future events and conditions, including, without limitation, water conditions, federal and state environmental and other laws and regulations, and economic conditions. While the District believes that these assumptions are reasonable, they are dependent on such future events and conditions. To the extent actual events and conditions differ from such assumptions, actual results will vary from the projections, and these variances could be substantial.

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BOND & DISCLOSURE COUNSEL
Orrick, Herrington & Sutcliffe LLP, Seattle, WA

DISTRIBUTION DIVISION

FIVE LARGEST LOCAL WHOLESALE PURCHASERS AND MAJOR RETAIL CUSTOMERS 2018 (1)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	329	$ 5,013	1.5%
Stemilt Growers	Agriculture	58	1,133	0.3%
Trout	Agriculture	30	614	0.2%
Confluence Health	Medical	27	573	0.2%
Keyes Fibre	Packaging	28	525	0.2%
		472	$ 7,858	2.4%

1. *Excludes non firm sales for resale.*

DISTRIBUTION DIVISION

STATEMENT OF REVENUES AND EXPENSES ($000)

Calendar Year	2014	2015	2016	2017	2018
Operating revenues					
Retail	$ 48,938	$ 48,014	$ 48,447	$ 53,468	$ 51,069
Resale (1)	210,976	188,436	201,134	209,412	238,946
Other (2)	30,943	25,744	27,380	37,513	34,433
Total	290,857	262,194	276,961	300,393	324,448
Operating expenses (3)	277,462	225,526	246,547	265,007	289,623
Net operating revenue	13,395	36,668	30,414	35,386	34,825
Other income	1,966	969	5,262	6,013	8,566
Net revenue (4)	$ 15,361	$ 37,637	$ 35,676	$ 41,399	$ 43,391

1. *Includes contractual purchases and nonfirm purchases for resale.*
2. *The Distribution Division includes transmission revenue under transmission agreements.*
3. *In 2015, 2014 Operating Expenses were restated to incorporate new GASB pension accounting requirements.*
4. *Prior to changes in accounting principles, capital contributions and interfund equity transfers.*

ENERGY REQUIREMENTS, RESOURCES AND POWER COSTS

Calendar Year	2014	2015	2016	2017	2018
Requirements (000 MWh) (1)	10,155	9,021	9,859	10,096	11,080
Resources (000 MWh)					
Rocky Reach System	3,103	2,824	2,839	2,872	2,931
Rock Island System	1,319	1,450	1,407	1,401	1,378
Lake Chelan System	426	440	471	461	371
Other purchases (2)	5,307	4,307	5,142	5,362	6,400
	10,155	9,021	9,859	10,096	11,080
Purchased Power Costs ($000)					
Rocky Reach System	$ 46,437	$ 47,926	$ 53,812	$ 48,955	$ 47,297
Rock Island System	53,109	50,443	50,679	51,601	52,370
Lake Chelan System	13,270	8,185	8,649	7,909	12,826
Other purchases (2)	106,240	57,475	68,465	85,488	103,645
	$ 219,056	$ 164,029	$ 181,605	$ 193,953	$ 216,138
Average cost ($/MWh) (3)	$ 22	$ 18	$ 18	$ 19	$ 20

1. *Net of timing differences and losses.*
2. *Other purchases include firm and non-firm power purchased to meet local requirements and certain contractual obligations, hedge price movements and minimize the District's overall risk exposure to changes in power prices. Effective January 1, 2015, "booked-out" energy is excluded due to a change in reporting from gross to net.*
3. *Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost may be due to fluctuations in water conditions on the Columbia River, which may significantly affect market prices.*

DISTRIBUTION DIVISION
CUSTOMERS, ENERGY SALES AND REVENUES

Calendar Year	2014	2015	2016	2017	2018
Customers					
Retail:					
Residential	37,047	37,222	37,708	38,161	38,783
Commercial	6,246	6,290	6,296	6,316	6,383
Industrial	31	30	31	29	30
High density load	-	-	-	19	20
Irrigation, frost, lighting	5,673	5,617	5,616	5,600	5,602
Interdepartmental	560	543	556	555	563
Total retail customers	49,557	49,702	50,207	50,680	51,381
Resale:	85	87	86	86	88
Total customers	49,642	49,789	50,293	50,766	51,469
Energy Sales (000 MWh)					
Retail:					
Residential	782	742	756	881	810
Commercial	482	482	491	499	465
Industrial	252	256	265	239	243
Irrigation, frost, lighting	46	48	43	40	40
High density load	-	-	-	68	77
Interdepartmental	23	26	16	21	22
Total retail sales	1,585	1,554	1,571	1,748	1,657
Resale:					
Alcoa Corp. (1)	69	88	-	-	-
Douglas County PUD	363	325	331	324	329
Other - firm/slice	1,945	2,155	2,147	2,165	2,443
Other - non firm/block/preschedule/real time (2)	6,224	4,714	6,088	6,046	6,586
Total sales for resale	8,601	7,282	8,566	8,535	9,358
Total energy sales	10,186	8,836	10,137	10,283	11,015
Revenue ($000)					
Retail:					
Residential	$ 25,068	$ 24,021	$ 24,424	$ 27,944	$ 26,019
Commercial	16,391	16,348	16,666	17,004	15,976
Industrial	5,154	5,185	5,366	4,896	5,001
Irrigation, frost, lighting	1,656	1,722	1,529	1,499	1,492
High density load	-	-	-	1,504	1,781
Interdepartmental	669	738	463	621	800
Total retail revenue	48,938	48,014	48,448	53,468	51,069
Resale:					
Alcoa Corp. (1)	2,808	2,207	-	-	-
Douglas County PUD	4,980	5,204	5,510	5,353	5,013
Other - firm/slice	76,136	84,262	75,431	78,934	81,287
Other - non firm/block/preschedule/real time (2)	127,052	96,763	113,995	118,431	142,731
Total resale revenue	210,976	188,436	194,936	202,718	229,031
Other revenue (3)	30,943	25,744	27,380	37,513	34,433
Total revenue	$ 290,857	$ 262,194	$ 270,764	$ 293,699	$ 314,533

1. *In December 2015, Alcoa Corp. curtailed its Wenatchee Works smelting facility. After a 90-day threshold of being curtailed, the proceeds from the sale of any unused power were first applied to Alcoa Corp's monthly contractual costs. Any surplus proceeds in excess of Alcoa Corp's costs were retained by the District.*
2. *Effective January 1, 2015, "booked-out" energy is excluded due to a change in reporting from gross to net.*
3. *Includes transmission, real-time agreement and environmental attribute revenues.*

HYDROELECTRIC SYSTEMS

POWER COST AND NET POWER DELIVERED ($000)

Calendar Year	2014	2015	2016	2017	2018
Rocky Reach System					
Operating expenses (1)	$ 44,163	$ 49,728	$ 65,363	$ 56,801	$ 58,643
Depreciation and amortization	16,512	16,634	16,951	17,299	12,313
Interest expense	14,209	13,336	12,434	11,377	10,144
Other (revenue) (2)	(960)	(440)	(665)	(1,344)	(585)
Total power cost (3)	$ 73,924	$ 79,258	$ 94,083	$ 84,133	$ 80,515
Net power delivered (000 MWh)	6,216	5,748	5,833	5,862	5,986
Cost in $/MWh	$ 12	$ 14	$ 16	$ 14	$ 13
Plant factor (4)	55%	50%	51%	51%	53%
Availability factor	89%	79%	73%	79%	79%
Average river flow (000 CFS) (5)	113	103	107	131	130
Rock Island System					
Operating expenses (1)	$ 42,783	$ 39,057	$ 42,909	$ 44,426	$ 47,089
Depreciation and amortization	10,904	10,975	11,297	10,322	10,790
Interest expense	25,388	24,457	23,520	22,610	21,485
Other (revenue) (2)	(320)	(772)	(426)	(815)	(316)
Total power cost (3)	$ 78,755	$ 73,717	$ 77,300	$ 76,543	$ 79,048
Net power delivered (000 MWh)(6)	2,648	2,932	2,853	2,820	2,782
Cost in $/MWh	$ 30	$ 25	$ 27	$ 27	$ 28
Plant factor (4)	48%	53%	52%	51%	50%
Availability factor	82%	81%	62%	59%	59%
Lake Chelan System					
Operating expenses (1)	$ 5,709	$ 5,134	$ 6,018	$ 5,587	$ 10,364
Depreciation and amortization	1,864	1,889	1,887	1,902	1,902
Interest expense	3,790	836	770	700	626
Other (revenue) (2)	(37)	(3)	(35)	(48)	(77)
Total power cost (3)	$ 11,326	$ 7,856	$ 8,640	$ 8,141	$ 12,815
Net power delivered (000 MWh)	426	440	471	461	371
Cost in $/MWh	$ 27	$ 18	$ 18	$ 18	$ 35
Plant factor (4)	82%	85%	91%	89%	72%
Availability factor	90%	89%	92%	97%	72%
Combined Hydro Cost in $/MWh	$ 18	$ 18	$ 20	$ 18	$ 19

1. *In 2015, year 2014 operating expenses were updated for the impacts of the retroactive implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27," which became effective for the District in 2015.*
2. *Includes other income and expenses that impact power cost.*
3. *Non-GAAP, may not be comparable with similarly titled other District metrics.*
4. *Net power delivered as a percentage of rated capacity for the year.*
5. *Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).*
6. *After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.*

CONSOLIDATED SYSTEM

OPERATING RESULTS AND DEBT SERVICE COVERAGE ($000) AS DEFINED IN THE MASTER RESOLUTION 07-13067

Calendar Year	2014	2015	2016	2017	2018
Operating revenues (1)					
Retail	$ 54,782	$ 54,009	$ 54,653	$ 60,088	$ 57,993
Resale	247,481	219,650	228,371	236,087	269,808
Other	49,355	44,009	45,728	58,020	56,466
Total	351,618	317,668	328,752	354,195	384,267
Less: Operating expenses					
Purchased power and water	(219,381)	(164,338)	(181,905)	(194,261)	(216,487)
Other operation & maintenance	(72,148)	(74,866)	(79,770)	(85,434)	(95,010)
Taxes	(5,742)	(5,388)	(5,802)	(7,011)	(6,645)
Depreciation & amortization	(20,992)	(19,700)	(19,048)	(19,912)	(21,083)
Operating income	33,355	53,376	42,227	47,577	45,042
Adjustments					
Add back depreciation & amortization	20,992	19,700	19,048	19,912	21,083
Add investment income	2,383	3,051	3,651	4,746	7,892
Add principal and interest payments from Rocky Reach & Rock Island	49,720	48,520	46,650	45,196	37,233
Total adjustments	73,095	71,271	69,349	69,854	66,208
Net revenues	106,450	124,647	111,576	117,431	111,248
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 106,450	$ 124,647	$ 111,576	$ 117,431	$ 111,250
Available funds (2)	$ 235,492	$ 202,221	$ 272,163	$ 313,579	$ 423,839
Annual debt service	$ 39,745	$ 42,751	$ 28,280	$ 28,236	$ 26,493
Debt service coverage					
With available funds (required 1.25x)	8.60	7.65	13.57	15.26	20.20
Without available funds (required 1.00x)	2.68	2.92	3.95	4.16	4.20

1. *Includes revenues of the District's Distribution Division; Financing Facilities, Treasury Services and Internal Service Funds; and Lake Chelan, Fiber and Telecommunications, Water and Wastewater Systems; all of which are part of the Consolidated System. Also certain revenues which were deferred and are being recognized over the terms of the applicable contracts.*
2. *Includes all unencumbered funds of the District that the District reasonably expects to be available to pay debt service on the Bonds.*

CONSOLIDATED SYSTEM AND HYDROELECTRIC SYSTEMS

OUTSTANDING LONG-TERM DEBT AS OF DECEMBER 31, 2018 ($000)

Date of Bonds	Final Maturity Date	Series of Bonds	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Principal Amount Outstanding	Accumulated for Retirement (3)
CONSOLIDATED SYSTEM							
6/3/2009	7/1/2032	2008B	$ 92,880	$ 29,220	$ 31,685	$ 61,195	$ 972
8/11/2009	7/1/2019	2009C	6,545	5,765	5,765	780	243
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	42,495	42,495	65,005	5,244
6/1/2011	7/1/2026	2011B	72,220	28,550	28,550	43,670	3,377
11/9/2011	7/1/2026	2011C	164,425	52,210	69,360	95,065	5,351
Total Consolidated System			470,585	158,240	177,855	292,730	16,987
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	212,560	212,560	195,812	32,044
8/11/2009	7/1/2029	2009A	14,000	3,480	7,645	6,355	608
Total Rock Island System			149,944	216,040	220,205	202,167	32,652
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	3,670	3,670	12,225	764
Total Rocky Reach System			15,895	3,670	3,670	12,225	764
Grand Total			$ 636,424	$ 377,950	$ 401,730	$ 507,122	$ 50,403

1. *Amount of serial bonds matured as of December 31, 2018 plus scheduled minimum redemption of term bonds to have been retired from mandatory sinking funds.*
2. *Amount of serial bonds matured as of December 31, 2018 plus actual retirement of term bonds retired from mandatory sinking funds, reserve accounts and optional purchases.*
3. *Amounts accumulated as cash and investments in various principal accounts, sinking funds and reserve accounts available for the future retirement of bonds. Investments are represented at book value.*
4. *Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreted value reported as Principal Amount Outstanding may exceed Original Principal Amount less Actual Retirements.*

CONSOLIDATED SYSTEM

LOANS AS OF DECEMBER 31, 2018 ($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 132,585	$ (9,944)	$ 122,641
Rock Island System	113,756	(10,736)	103,020
Consolidated System (3)	46,389	(14,717)	31,672
	$ 292,730	$ (35,397)	$ 257,333

1. *Represents aggregate principal amounts of Consolidated System Bonds allocated to intersystem and interfund loans.*
2. *Consists primarily of prior loan repayments. Also includes adjustments for unamortized original issue discounts, issuance costs and amount payable to and (receivable) from other systems.*
3. *Includes bond proceeds advanced to various funds and components of the Consolidated System for capital purposes.*

CONSOLIDATED SYSTEM DEBT SERVICE AND HYDROELECTRIC SYSTEM

LOAN PAYMENTS AS OF DECEMBER 31, 2018

	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service			Rocky	Rock	Total Loan
Year	Principal (2)	Interest (3)	Total	Reach	Island	Payments
2019	$ 11,872,400	$ 12,323,651	$ 24,196,051	$ 19,884,836	$ 14,849,247	$ 34,734,083
2020	29,405,000	12,285,108	41,690,108	18,682,912	14,912,410	33,595,322
2021	26,650,000	11,095,690	37,745,690	16,995,034	14,174,292	31,169,326
2022	27,820,000	9,953,817	37,773,817	16,995,986	13,992,722	30,988,708
2023	29,085,000	8,717,561	37,802,561	16,928,190	13,986,388	30,914,578
2024	30,470,000	7,364,863	37,834,863	16,872,091	13,514,012	30,386,103
2025	33,965,000	5,927,007	39,892,007	14,732,661	13,060,229	27,792,890
2026	21,613,353	4,336,773	25,950,126	13,050,225	13,000,617	26,050,842
2027	1,970,000	2,649,826	4,619,826	11,627,056	12,999,821	24,626,877
2028	2,865,000	2,552,867	5,417,867	10,208,263	13,617,350	23,825,613
2029	1,290,000	2,468,066	3,758,066	8,878,935	9,401,242	18,280,177
2030	1,345,000	2,410,680	3,755,680	7,463,981	10,863,167	18,327,148
2031	1,405,000	2,348,598	3,753,598	6,054,618	10,348,046	16,402,664
2032	45,512,775	1,458,979	46,971,754	4,803,146	9,210,877	14,014,023
2033	1,530,000	566,592	2,096,592	4,220,632	9,158,162	13,378,794
2034	1,600,000	495,970	2,095,970	3,961,897	8,697,915	12,659,812
2035	1,675,000	422,117	2,097,117	2,638,751	7,726,901	10,365,652
2036	1,745,000	344,802	2,089,802	1,388,256	7,567,744	8,956,000
2037	1,825,000	264,256	2,089,256	289,191	7,303,721	7,592,912
2038	1,905,000	180,017	2,085,017	289,191	6,488,326	6,777,517
2039	194,940	92,086	287,026	146,202	3,091,288	3,237,490
2040	-	-	-	-	1,033,001	1,033,001
2041	-	-	-	-	928,704	928,704
2042	-	-	-	-	649,708	649,708
2043	-	-	-	-	410,126	410,126
2044	-	-	-	-	19,601	19,601
Total	$ 275,743,468	$ 88,259,326	$ 364,002,794	$ 196,112,054	$ 231,005,617	$ 427,117,671

1. *Represents loan payment obligations of the Rocky Reach and Rock Island Hydroelectric Systems to the Consolidated System with respect to intersystem loans from the Consolidated System.*
2. *Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity. The District may elect to utilize the Reserve Accounts other than as shown depending on market conditions and limitations contained made in the governing resolutions. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due, however the District may elect to refinance balloon payments.*
3. *Interest is net of Build America Bond direct payment Federal subsidy assumed at approximately 33 percent.*

CONSOLIDATED SYSTEM

UNRESTRICTED AND RESTRICTED FUND BALANCES AS OF DECEMBER 31, 2018 ($000)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 49,683	$ 773	$ 5,359	$ 12,306	$ 68,121
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	137,204	-	-	-	137,204
Other unrestricted funds (5)	57,270	6,401	108,731	7,365	179,767
Total unrestricted funds	294,157	7,174	114,090	19,671	435,092
Restricted funds (6)	650	1	18,756	8,472	27,879
Total fund balances	$ 294,807	$ 7,175	$ 132,846	$ 28,143	$ 462,971

1. *Amounts reflect both cash and book value of investments.*
2. *Includes Distribution Division, Fiber and Telecommunications, Water and Wastewater Systems.*
3. *Financing Facilities is an internal service fund of the District's Consolidated System used to account for various financing related activities, including holding Consolidated System debt service reserve funds.*
4. *Unencumbered funds of the District held in the Revenue Fund.*
5. *Includes all other Unrestricted Funds such as Board Designated Construction Funds and Reserves.*
6. *Includes all Restricted Funds such as Consolidated System Bond Proceeds, Bond Reserves and other Reserves.*

ROCK ISLAND SYSTEM
AVERAGE ANNUAL ENERGY OUTPUT AND DISPOSITION OF OUTPUT (000 MWH)

Calendar Year	2014	2015	2016	2017	2018
Original system net generation	695	481	491	463	425
Second powerhouse net generation	2,095	2,272	2,190	2,194	2,245
Total generation	2,790	2,753	2,681	2,657	2,670
Plus:					
Wanapum encroachment (1)	191	506	511	464	451
Net interchange	(27)	23	17	39	9
System losses by contract	(9)	(9)	(15)	(17)	(18)
Less:					
Canadian Treaty Power (2)	(154)	(160)	(159)	(158)	(156)
Rocky Reach Encroachment (3)	(143)	(181)	(183)	(165)	(174)
Total net power delivered (4)	2,648	2,932	2,852	2,820	2,782
Percentage allocations (5)					
Power Purchasers	51%	51%	51%	51%	51%
District	49%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,331	1,482	1,445	1,419	1,404
District	1,317	1,450	1,407	1,401	1,378
Total sales (4)	2,648	2,932	2,852	2,820	2,782
Net peaking capability	629	629	629	629	629
Availability factor	82%	81%	62%	59%	59%
Plant factor (6)	48%	53%	52%	51%	50%

1. *Energy to be made available from Grant PUD's Wanapum Project in accordance with an encroachment agreement.*
2. *Energy to be made available for the account of Canada in accordance with arrangements made as a result of the Canadian Treaty.*
3. *Energy transferred from Rock Island to Rocky Reach to account for effects of one project on the output of the other.*
4. *Includes coordination exchange and pond transfers.*
5. *As defined by the Power Sales Contracts, the District received a fixed 49 percent of the combined power produced by the Rock Island and Rocky Reach Systems.*
6. *Net Power Delivered as a percentage of rated capacity for the year.*

ROCK ISLAND SYSTEM
COST OF POWER COMPARISON ($/MWH)

Calendar Year	2014	2015	2016	2017	2018
Rock Island System	$ 30	$ 25	$ 27	$ 27	$ 28
Bonneville Power (1)	$ 38	$ 40	$ 40	$ 40	$ 42

1. *The Bonneville rate is for preferred, flat undelivered and includes transmission and wheeling charges.*

ROCK ISLAND SYSTEM
HISTORICAL AND PROJECTED ANNUAL CAPITAL REQUIREMENTS ($000)

Actual Calendar Year		2014		2015		2016		2017		2018
Rock Island System	$	5,663	$	11,320	$	33,708	$	33,001	$	46,622
Projected Calendar Year (1)		**2019**		**2020**		**2021**		**2022**		**2023**
Rock Island System	$	71,590	$	48,930	$	35,650	$	42,365	$	31,944

1. *Projections are based on materials prepared in connection with the District's normal advance planning process and are revised annually. Projections are in nominal dollars.*

ROCK ISLAND SYSTEM
CASH AVAILABLE FOR DEBT SERVICE ($000)

Calendar Year		2014		2015		2016		2017		2018
Operating revenues:										
Power Purchasers	$	53,975	$	51,201	$	51,448	$	52,391	$	53,209
District		51,831		49,166		49,402		50,324		51,093
Total revenues from sales		105,806		100,367		100,850		102,715		104,302
Other operating revenues		200		168		158		143		147
Total operating revenues		106,006		100,535		101,008		102,858		104,449
Total operating expenses (1)		53,687		50,032		54,207		54,748		57,879
Net operating revenues		52,319		50,503		46,801		48,110		46,570
Other expense		(25,823)		(24,649)		(23,930)		(23,036)		(21,939)
Net revenues		26,496		25,854		22,871		25,074		24,631
Add back:										
Depreciation		10,904		10,975		11,297		10,322		10,790
Interest expense		25,388		24,457		23,520		22,610		21,485
Amortization of deferred debt costs		271		270		290		265		264
Other (2)		134		165		337		395		191
Deduct:										
Amortization of deferred power sales revenue		(641)		(651)		(655)		(669)		(690)
Cash available for debt service		62,552		61,070		57,660		57,997		56,671
Annual debt service:										
Rock Island Bonds		23,022		23,422		23,421		23,420		22,973
Intersystem loans		19,186		17,668		16,246		15,981		15,123
Total debt service requirement		42,208		41,090		39,667		39,401		38,096
Cash available after payment of all debt service	$	20,344	$	19,980	$	17,993	$	18,596	$	18,575
Coverage of total debt service		1.48		1.49		1.45		1.47		1.49

1. *Includes depreciation expense. 2014 expenses restated in 2015 due to new GASB pension accounting requirements for pension expense.*
2. *Represents noncash items such as fair value adjustments and amortizations included in operating activities that are not indicative of cash available for debt service.*

ROCK ISLAND SYSTEM

DEBT SERVICE REQUIREMENTS AS OF DECEMBER 31, 2018

Twelve Months Ending Dec. 31	Bonds		Subordinate Lien Bonds		Intersystem Loans (1)		Total Estimated Debt Service
	Estimated Debt Service	Estimated Principal Retirements (2)(3)	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	
2019	$ 22,685,000	$ 22,685,000	$ 752,556	$ 465,000	$ 14,849,247	$ 5,939,072	$ 38,286,803
2020	22,685,000	22,685,000	753,956	485,000	14,912,410	6,390,631	38,351,366
2021	22,685,000	22,685,000	754,556	505,000	14,174,292	6,078,590	37,613,848
2022	22,685,000	22,685,000	754,356	525,000	13,992,722	6,301,067	37,432,078
2023	22,685,000	22,685,000	753,356	545,000	13,986,388	6,716,574	37,424,744
2024	22,685,000	22,685,000	751,556	565,000	13,514,012	6,684,502	36,950,568
2025	22,685,000	22,685,000	753,250	590,000	13,060,229	6,673,609	36,498,479
2026	22,685,000	22,685,000	753,750	620,000	13,000,617	7,056,889	36,439,367
2027	22,685,000	22,685,000	752,750	650,000	12,999,821	7,524,936	36,437,571
2028	22,685,000	22,685,000	755,250	685,000	13,617,350	8,640,462	37,057,600
2029	12,551,000	12,551,000 (4)	147,994	111,994 (4)	9,401,242	4,881,550	22,100,236
2030	-	-	-	-	10,863,167	6,767,181	10,863,167
2031	-	-	-	-	10,348,046	6,695,273	10,348,046
2032	-	-	-	-	9,210,877	6,011,330	9,210,877
2033	-	-	-	-	9,158,162	6,361,514	9,158,162
2034	-	-	-	-	8,697,915	6,332,035	8,697,915
2035	-	-	-	-	7,726,901	5,780,869	7,726,901
2036	-	-	-	-	7,567,744	6,005,108	7,567,744
2037	-	-	-	-	7,303,721	6,141,158	7,303,721
2038	-	-	-	-	6,488,326	5,740,335	6,488,326
2039	-	-	-	-	3,091,288	2,722,826	3,091,288
2040	-	-	-	-	1,033,001	856,009	1,033,001
2041	-	-	-	-	928,704	809,808	928,704
2042	-	-	-	-	649,708	585,128	649,708
2043	-	-	-	-	410,126	383,687	410,126
2044	-	-	-	-	19,601	18,923	19,601
Total	$ 239,401,000	$ 239,401,000	$ 7,683,330	$ 5,746,994	$ 231,005,617	$ 134,099,066	$ 478,089,947

1. *Represents loan payment obligations of the Rock Island System to the Consolidated System with respect to the intersystem loans from the Consolidated System.*
2. *Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par.*
3. *Represents Capital Appreciation Bonds on which interest is compounded. Thus, the accreted value reported as Estimated Principal Retirements equals Estimated Debt Service.*
4. *The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve Account, principal accounts and sinking funds. It should be recognized the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolution.*

ROCK ISLAND SYSTEM

OPERATING RESULTS AND DEBT SERVICE COVERAGE ($000) AS DEFINED IN THE SUBORDINATE ROCK ISLAND MASTER RESOLUTION 08-13391

Calendar Year	2014	2015	2016	2017	2018
Operating revenue					
Wholesale sales (1)	$ 105,806	$ 100,367	$ 100,850	$ 102,715	$ 104,302
Other operating revenues	200	168	158	143	147
Total operating revenues	106,006	100,535	101,008	102,858	104,449
Operating expenses					
Operations & maintenance	(42,462)	(38,421)	(42,273)	(43,805)	(46,479)
Taxes	(576)	(637)	(637)	(621)	(610)
Depreciation and amortization	(10,904)	(10,975)	(11,297)	(10,322)	(10,790)
Total operating expense	(53,942)	(50,033)	(54,207)	(54,748)	(57,879)
Operating income	52,064	50,502	46,801	48,110	46,570
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(19,186)	(17,668)	(16,246)	(15,981)	(15,123)
Add back depreciation and amortization	10,904	10,975	11,297	10,322	10,790
Add investment income	1,767	2,079	2,370	2,297	2,324
Total adjustments	(6,515)	(4,614)	(2,579)	(3,362)	(2,009)
Net revenues	$ 45,549	$ 45,888	$ 44,222	$ 44,748	$ 44,561
Annual debt service					
Bonds	$ 22,685	$ 22,685	$ 22,685	$ 22,685	$ 22,685
Subordinate Bonds	337	737	736	735	288
Total debt service	$ 23,022	$ 23,422	$ 23,421	$ 23,420	$ 22,973
Debt service coverage					
Without available funds (required 1.00x)	1.98	1.96	1.89	1.91	1.94

1. *Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rock Island project debt and loans of Consolidated System bond proceeds and other contractually defined amounts.*
2. *Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.*

ROCKY REACH SYSTEM

DEBT SERVICE REQUIREMENTS AS OF DECEMBER 31, 2018

Twelve Months Ending Dec. 31	Bonds		Intersystem Loans (1)		Total Estimated Debt Service
	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	
2019	$ 1,126,250	$ 515,000	$ 19,884,836	$ 11,361,962	$ 21,011,086
2020	1,125,500	540,000	18,682,912	10,813,510	19,808,412
2021	1,128,500	570,000	16,995,034	9,781,536	18,123,534
2022	1,130,000	600,000	16,995,986	10,422,550	18,125,986
2023	1,130,000	630,000	16,928,190	11,032,325	18,058,190
2024	1,128,500	660,000	16,872,091	11,669,551	18,000,591
2025	1,125,500	690,000	14,732,661	10,278,871	15,858,161
2026	1,126,000	725,000	13,050,225	9,265,300	14,176,225
2027	1,129,750	765,000	11,627,056	8,437,424	12,756,806
2028	1,126,500	800,000	10,208,263	7,550,719	11,334,763
2029	1,126,500	840,000	8,878,935	6,701,646	10,005,435
2030	1,129,500	885,000	7,463,981	5,721,337	8,593,481
2031	1,130,250	930,000	6,054,618	4,687,783	7,184,868
2032	1,128,750	975,000	4,803,146	3,750,061	5,931,896
2033	1,130,000	1,025,000	4,220,632	3,448,158	5,350,632
2034	364,300	310,550 (3)	3,961,897	3,444,978	4,326,197
2035	-	-	2,638,751	2,331,708	2,638,751
2036	-	-	1,388,256	1,251,761	1,388,256
2037	-	-	289,191	239,572	289,191
2038	-	-	289,191	258,335	289,191
2039	-	-	146,202	135,641	146,202
Total	$ 17,285,800	$ 11,460,550	$ 196,112,054	$132,584,728	$213,397,854

1. *Represents loan payment obligations of the Rocky Reach System to the Consolidated System with respect to the intersystem loans from the Consolidated System.*
2. *Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par.*
3. *The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve Account. It should be recognized the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolutions.*

ROCKY REACH SYSTEM

OPERATING RESULTS AND DEBT SERVICE COVERAGE ($000) AS DEFINED IN THE ROCKY REACH MASTER RESOLUTION 08-13390

Calendar Year	2014	2015	2016	2017	2018
Operating revenue					
Wholesale sales (1)	$ 92,554	$ 96,575	$ 109,610	$ 99,684	$ 96,313
Other operating revenues	561	208	204	914	199
Total operating revenues	93,115	96,783	109,814	100,598	96,512
Operating expenses					
Operations & maintenance	(43,080)	(48,493)	(64,112)	(55,541)	(57,357)
Taxes	(1,335)	(1,235)	(1,251)	(1,260)	(1,286)
Depreciation and amortization	(16,512)	(16,634)	(16,951)	(17,299)	(12,313)
Total operating expenses	(60,927)	(66,362)	(82,314)	(74,100)	(70,956)
Operating income	32,188	30,421	27,500	26,498	25,556
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(30,535)	(30,852)	(30,404)	(29,215)	(22,110)
Add back depreciation and amortization	16,512	16,634	16,951	17,299	12,313
Add investment income	395	555	782	915	1,218
Total adjustments	(13,628)	(13,663)	(12,671)	(11,001)	(8,579)
Net revenues	$ 18,560	$ 16,758	$ 14,829	$ 15,497	$ 16,976
Annual debt service	$ 2,615	$ 1,128	$ 1,127	$ 1,129	$ 1,126
Debt service coverage					
Without available funds (required 1.00x)	7.10	14.86	13.16	13.73	15.08

1. *Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rocky Reach project debt and loans of Consolidated System bond proceeds and other contractually defined amounts.*
2. *Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.*

THE INFORMATION SET FORTH BELOW RELATING TO THE POWER PURCHASERS WHICH ARE SUBJECT TO THE INFORMATIONAL REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT") HAS BEEN OBTAINED FROM DOCUMENTS FILED BY SUCH POWER PURCHASERS WITH THE SECURITIES AND EXCHANGE COMMISSION (THE SEC). NEITHER THE POWER PURCHASERS, NOR THE DISTRICT MAKES REPRESENTATION AS TO, NOR HAVE THEY ATTEMPTED TO VERIFY, THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (Puget Energy) is an energy services holding company incorporated in the state of Washington in 1999. Substantially, all of its operations are conducted through its regulated subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy also has a wholly-owned non-regulated subsidiary, named Puget LNG, LLC (Puget LNG). Puget LNG, was formed on November 29, 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility. Puget Energy is owned through a holding company structure by Puget Holdings, LLC (Puget Holdings). Puget Holdings is owned by a consortium of long-term infrastructure investors including, Macquarie Infrastructure Partners, Macquarie Capital Group Limited, the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation and the Alberta Investment Management Corporation. All of Puget Energy's common stock is indirectly owned by Puget Holdings. Puget Energy and PSE are collectively referred to herein as "the Company." The Company's principal executive offices are located at 355 110th Ave NE, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company's internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and largest electric and natural gas utility headquartered in the state of Washington, primarily engaged in the business of electric transmission, distribution and generation and natural gas distribution. Puget Energy's business strategy is to generate stable earnings and cash flow by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy does not have any employees and PSE had approximately 3,140 full time employees as of December 31, 2018.

PSE is a public utility incorporated in the state of Washington in 1960. PSE furnishes electric and natural gas service in a territory covering approximately 6,000 square miles, principally in the Puget Sound region. As of December 31, 2018, PSE had approximately 1,157,000 electric customers, and approximately 837,000 natural gas customers.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Puget Energy, are incorporated by reference herein: The Company's Form 10-K for the year ended December 31, 2018 filed February 21, 2019 and any other such reports.

In addition, all documents filed by the Company pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing. The Company's reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d)of the Securities Exchange Act of 1934 are available or maybe accessed free of charge at the Company's website, www.pugetenergy.com. Information may also be obtained via the SEC Internet website at www.sec.gov.

ALCOA CORPORATION

GENERAL

Alcoa Corporation, a Delaware corporation, became an independent, publicly traded company on November 1, 2016, as explained below under "Separation Transaction." Alcoa Corporation has its principal office in Pittsburgh, Pennsylvania. In this report, unless the context otherwise requires, "Alcoa" or the "Company," "we," "us," and "our" means Alcoa Corporation and all subsidiaries consolidated for the purposes of its financial statements.

Alcoa is a global industry leader in the production of bauxite, alumina, and aluminum. Alcoa is built on a foundation of strong values and operating excellence dating back 130 years to the world-changing discovery that made aluminum an affordable and vital part of modern life. Since developing the aluminum industry, and throughout our history, our talented Alcoans have followed on with breakthrough innovations and best practices that have led to efficiency, safety, sustainability, and stronger communities wherever we operate.

Aluminum is a commodity traded on the London Metal Exchange (LME) and priced daily. Additionally, alumina is subject to market pricing against the Alumina Price Index (API). As a result, the price of both aluminum and alumina is subject to significant volatility and, therefore, influences the operating results of Alcoa.

Alcoa is a global company with 40 operating locations across 10 countries. Alcoa's operations consisted of three reportable segments for 2017: Bauxite, Alumina, and Aluminum. The Bauxite and Alumina segments primarily consist of a series of affiliated operating entities held in an unincorporated joint venture between Alcoa and an Australian company. The Aluminum segment consists of the company's aluminum smelting, cast products and rolled products businesses, along with the majority of the energy segment.

The Company's Internet address is www.alcoa.com. Alcoa makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act) as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The information on the Company's Internet site is not a part of, or incorporated by reference in, this annual report on Form 10-K. The SEC maintains an Internet site that contains these reports at www.sec.gov.

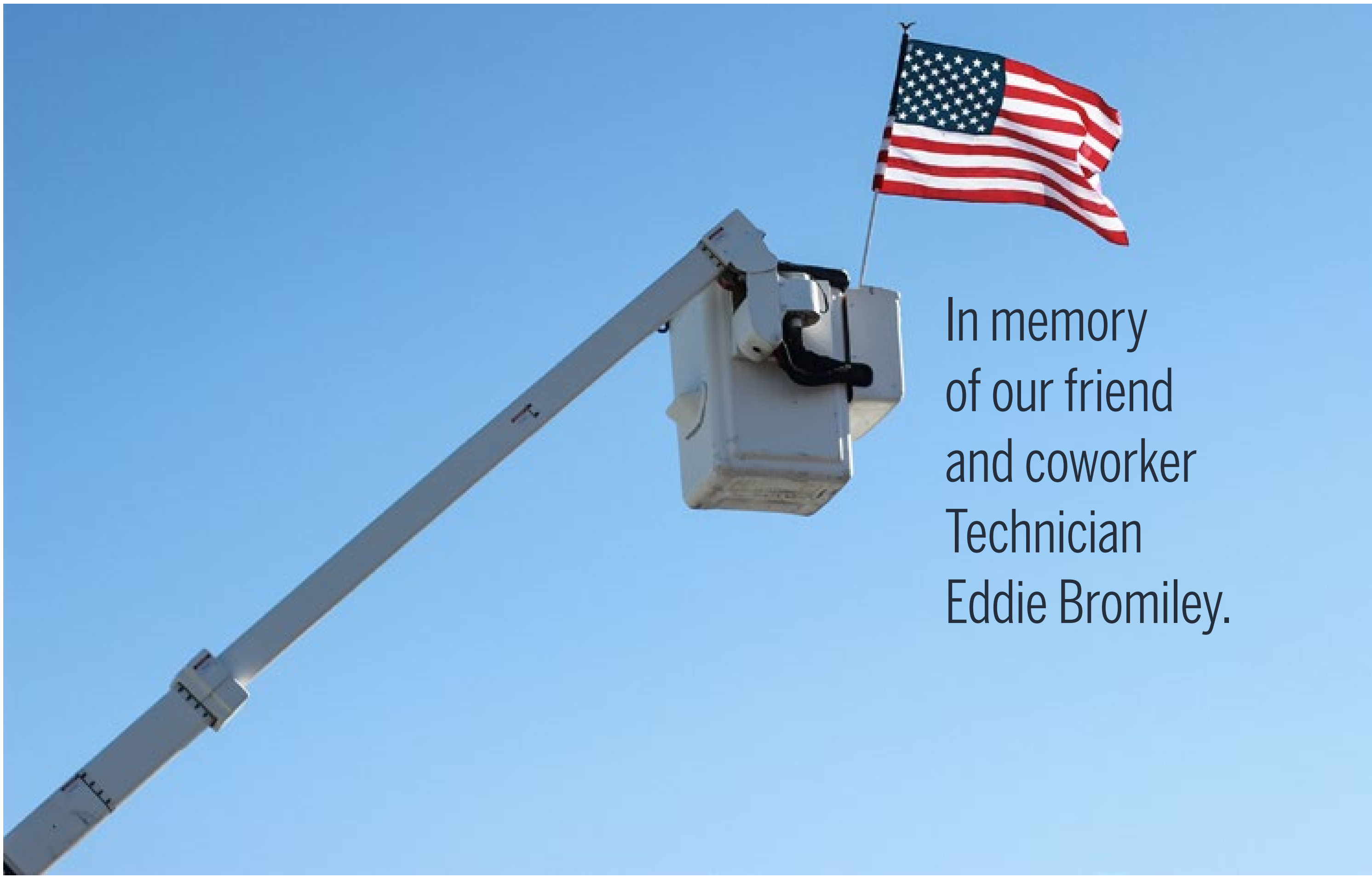
SEPARATION TRANSACTION

On September 28, 2015, Alcoa Inc. (ParentCo) announced its intention to separate ParentCo into two standalone, publicly-traded companies (the Separation Transaction). Alcoa Corporation was formed to hold ParentCo's Bauxite, Alumina, Aluminum, Cast Products and Energy businesses, as well as ParentCo's rolling mill operations in Warrick, Indiana, and ParentCo's 25.1% interest in the Ma'aden Rolling Company in Saudi Arabia (the Alcoa Corporation Business). Following the Separation Transaction, Alcoa Corporation holds the assets and liabilities of ParentCo relating to those businesses and the direct and indirect subsidiary entities that operated the Alcoa Corporation Business, subject to certain exceptions. Upon completion of the Separation Transaction, ParentCo was renamed Arconic Inc. (Arconic) and now holds ParentCo's Engineered Products and Solutions, Global Rolled Products (other than the rolling mill operations in Warrick, Indiana, and the 25.1% interest in the Ma'aden Rolling Company in Saudi Arabia) and Transportation and Construction Solutions businesses (the Arconic Business), including those assets and liabilities of ParentCo and its direct and indirect subsidiary entities that operated the Arconic Business, subject to certain exceptions.

In connection with the Separation Transaction, as of October 31, 2016, Alcoa Corporation entered into certain agreements with Arconic to implement the legal and structural separation between the two companies to govern the relationship between Alcoa Corporation and Arconic after the completion of the Separation Transaction and allocate between Alcoa Corporation and Arconic various assets, liabilities and obligations, including, among other things, employee benefits, environmental liabilities, intellectual property, and tax-related assets and liabilities.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Alcoa, are incorporated by reference herein: Alcoa's Annual Report on Form 10-K for the year ended December 31, 2018 filed on February 26, 2019 and any other such reports. In addition, all documents filed by Alcoa pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing. Alcoa will provide to each person to whom a copy of this filing has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: Secretary, Alcoa Corporation, 201 Isabella Street, Suite 500, Pittsburgh, Pennsylvania 15212-5858.




CHELAN COUNTY
DON'T BE
THAT
GUY/LADY
P.U.D.