2017
CHELAN COUNTY PUBLIC UTILITY DISTRICT
ANNUAL REPORT
POWER ON

P.U.D.
CHELAN COUNTY
www.chelanpud.org

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.

About us

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 50,000 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 1-6 of the 2017 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.*

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

TABLE OF CONTENTS

70+ YEARS STRONG

Steve Wright

Chelan PUD finished 2017 with strong, positive financial results.

We did that by **staying true to strategic priorities** to invest in key assets and employees, **pay down debt** and **enhance the quality of life** in Chelan County with our Public Power Benefit program as funds allow. Chelan PUD is **keeping its promise** to provide sustainable, reliable utility services that enhance the quality of life in Chelan County.

Our **positive bottom line was $105 million**, $20 million more than budget and $9 million more than 2016. We **paid down debt by another $52 million** and we exceeded targets on the four key measurements of financial stability. (See page 2)

Those results add to a **strong foundation** as we prepare for an uncertain future. Prices in the wholesale electricity markets, where the PUD gets most of its revenue, are like riding a roller coaster. The markets have gone up and down for most of the last 20 years.

> "Our financial policies and asset management provide this utility with considerable resiliency."

We've made much progress to ensure that the PUD can weather the peaks and valleys of a volatile electricity market since adopting comprehensive financial policies in 2010. Those policies were the foundation of our 2015 Strategic Plan. The strategic plan continues to guide our actions as we update financial forecasts.

Since the 2015 Strategic Plan, we have had good revenue years, as we predicted. However, the long-term wholesale electricity markets — which are an integral component to keeping our customer-owner rates low — have changed dramatically. We expect to feel this impact in the 2020s. That's why we are taking steps today to help insulate the utility from what likely will be leaner financial years.

Looking ahead, 2018 will be our largest capital investment in at least the last 20 years. We are focusing on accelerated work at our dams and other assets to get our infrastructure into good shape. We also plan to pay down another $24 million in debt, which should get us to our target of below 35 percent debt to equity ratio, further protecting us from the impacts of market volatility.

While we carefully watch the wholesale electricity markets, our financial policies and asset management provide this utility with considerable resiliency. Chelan PUD has served its customer-owners for 70 years. We are prepared to **keep the power on for generations to come**.

Strength in strategy

Our Strategic Plan, developed with our customer-owners, is a strong foundation. In 2017, PUD commissioners affirmed the three priorities and the order assigned them in the previous year.

1. **Invest in core assets and people**
2. **Reduce debt**
3. **Continue Public Power Benefit as funds allow**

Looking ahead, we are **preparing** for a future with lower wholesale electric market prices and staying **focused on delivering** reliable service, keeping finances strong and improving the quality of life in Chelan County.

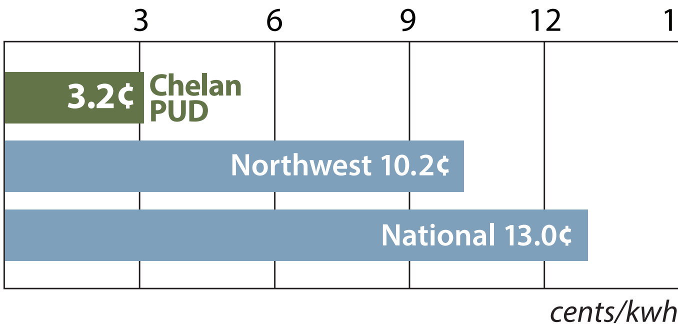
Strength in local leadership

Chelan County residents elect our Board of Commissioners to govern the District. Ideas and comments from 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

Chelan PUD 2017 AT A GLANCE

3.2¢ **Average residential rate per kilowatt hour in 2017:** No electric rate increase for **6 years**



$8.9 million paid in operating tax expense

Number of retail electric customers

50,680

14,974

Number of fiber end-user connections

Number of water/wastewater customers

6,604

Electric system reliability

BOND RATINGS

Fitch Ratings .... **AA+**

Standard and Poor's .... **AA**

Moody's Investors Service **Aa3**

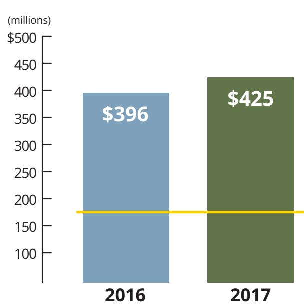
As of Dec. 31, 2017

We measure the District's financial stability in four ways. **Chelan PUD EXCEEDED targets for all four in 2017.**

Financial liquidity

Target:* *Minimum of $175 million

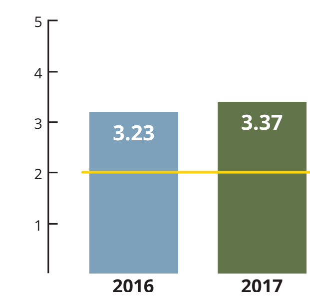
Represents cash reserves to cover risks and provide additional financial stability



Debt service coverage

Target:* *Greater than 2.0

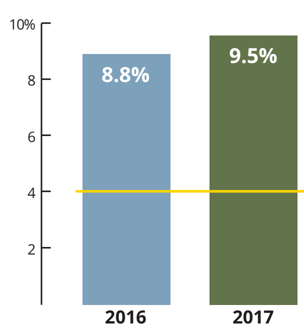
Demonstrates the ability to meet debt obligations even under unusual conditions



Rate of return

Target:* *Greater than 4 percent

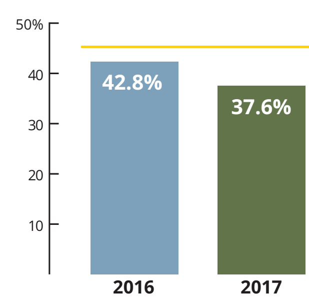
Provides income to replace assets over time and meet obligations in unusual conditions



Debt ratio

Target:* *Less than 45 percent for 2017

Reflects the percentage of utility assets financed by debt



Target line

READY TO RESPOND

Keeping the power on

Investing $550 million to refurbish and modernize over 12 years:

ROCKY REACH DAM
Largest units, C8-C11

- *Correcting a design flaw in the four largest units — estimated finish: 2021*
- *Stator repair and new windings — finished: August 2017*
- *Refurbish bridge cranes — estimated finish: April 2018*

ROCK ISLAND DAM
Powerhouse 1

- *Rehabbing units B5-10 continues — estimated finish: 2022*
- *Modernizing units B1–4 — estimated finish: early 2020*

Powerhouse 2

- *Rehabbing 8 bulb turbines and related projects — estimated start: 2021 — estimated finish: 2029*

**See Note 12 on page 40*

Paying down debt

Following our strategic priority, we **reduced debt** by another $52 million in 2017.

**See Note 6 on page 31*

Looking ahead

Moving forward with advanced, two-way metering as a preferred alternative for future customer meters and as part of a **new customer technology program.**

Designing new and remodeled **facilities for efficient operations** at Rock Island and Rocky Reach dams and beginning an in-depth conversation with the community on plans to consolidate service and operations center in the North Wenatchee area — replacing the current downtown headquarters and nearby facilities.

Responding to economic and population growth with plans for three new substations and upgrades at existing stations. Addressing the **challenges posed by cryptocurrency operations** and blockchain technology while protecting the infrastructure investment by existing customer-owners.

POWER ON

Lake Chelan Dam

.4 MILLION MEGAWATT HOURS GENERATED

2 GENERATORS, 59 MEGAWATT CAPACITY*

Chelan PUD's retail distribution system buys all the power generated at the Chelan Falls powerhouse.

Our federal license to operate the dam runs through 2056.

Clean, renewable, carbon-free hydropower

Chelan PUD's three dams generate clean, reliable, renewable hydropower, creating tremendous value for customer-owners, the community and region.

Our No. 1 priority is keeping these key assets in top shape.

Rock Island Dam

2.7 MILLION MEGAWATT HOURS GENERATED

2 POWERHOUSES

18 GENERATORS

(PLUS 1,000 KW HOUSE UNIT)

629 MEGAWATT CAPACITY*

Plans are moving ahead to rehab the eight bulb turbines in Powerhouse 2, plus other upgrades, starting in 2021. Work continues on rehabbing units in the original Rock Island Dam powerhouse also, to finish in 2022.

Our federal license to operate the dam runs through 2028.

Rocky Reach Dam

6.2 MILLION MEGAWATT HOURS GENERATED

11 GENERATORS

1,300 MEGAWATT CAPACITY*

Long-term repairs to correct a design flaw on the four largest units are on schedule to finish in 2021. The stators were repaired and rewound.

Our federal license to operate the dam runs through 2052.

**Generator nameplate capacity*

SUSTAINABILITY

Efficient energy use

Customers who took part in PUD efficiency programs saved enough to power more than **700 local homes** in 2017.

The lion's share of those savings — about **12 million kWh** — were from efficiency improvements at businesses and government buildings.

More than 130 school districts, public agencies and private companies installed energy-efficient lighting with PUD help.

Power in a sustainable future

We value **Trustworthiness**, **Operational Excellence**, **Stewardship** and **Safety**.

Chelan County is our home, as well as the place we work. Generating clean, renewable and affordable hydropower and delivering highly reliable utility services is an honor that carries great responsibility.

Our sustainability report measures our progress on being stewards of the incredible resources in our care.

Making carbon-free power

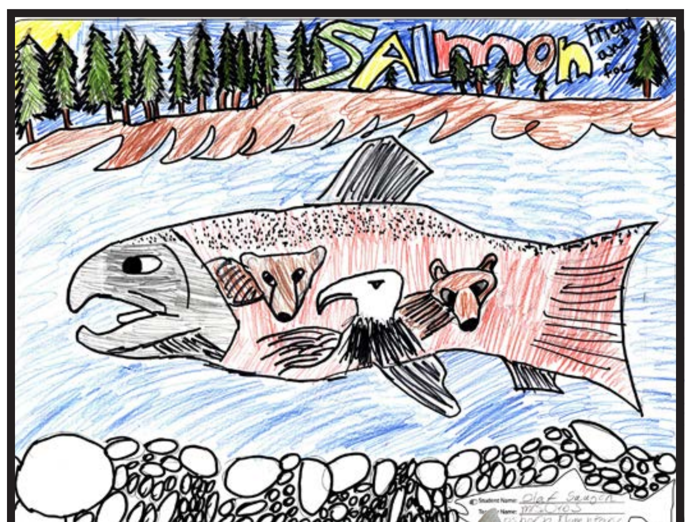
9.3 million megawatts of **clean, renewable hydropower** generated at our three dams in 2017.

Powerful stewardship

Our Columbia River Dams have **No Net Impact on salmon and steelhead** swimming past. That's the result of an innovative, 50-year plan with state and federal agencies and tribes to improve fish passage, protect habitat and manage hatchery programs.

We're not done.

The agreements allow for incorporating future technology and efficiency advances. We'll confirm this high standard in 2020 for Rock Island Dam and 2021 for Rocky Reach.



2017 Salmon Festival winning poster.

SUSTAINABILITY

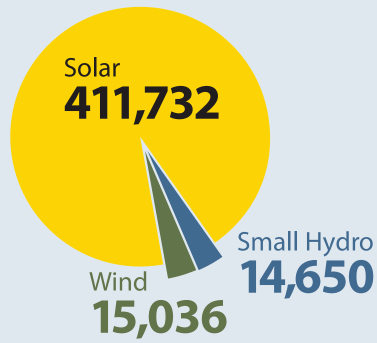
Powering on with wind and solar

9 solar producers joined Chelan PUD's **SNAP** (Sustainable Natural Alternative Power) program in the past year.

Generation for the year ending 3/31/17 topped generation the previous year by **42 percent**.

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

Generation: 441,418
(kilowatt hours in year ending 3/31/17)



Powered by community

Our community sustains public power. **More than 40 events** supported by Chelan PUD offered employees a direct connection with nearly **20,000 people** in 2017.

Going paperless

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

14,262 PUD customers were enrolled by the end of 2017.

26,505 customers asked to get news about their PUD by email.

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, 2017 and 2016, 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, 2017 and 2016, 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 9 through 15 and the Required Supplementary Information on Page 45, 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 47 through 51, 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 54 through 68 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 20, 2018

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, 2017 and 2016. 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 2017, $20 million more than budget for the year and $9 million higher than 2016. 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. A combination of higher revenues and lower expenses were the main reasons for the better than budgeted $105 million bottom-line results. The District continued to exceed all its financial targets in 2017.
- Long-term repairs continued on the four largest units at Rocky Reach Dam to restore their movable turbine blade capability. In addition, work to rewind all four of the generators for the same large units to extend the life of the equipment at least another 30 years was completed during 2017. Work on the units was delayed somewhat upon discovering additional wear on the two 1950s-era powerhouse bridge cranes during a $5.7 million project to modernize the cranes and provide another 40 to 50 years of life. Fixing the extra wear will add time and about $800,000 to the project. Work on the bridge cranes began after C-8 was re-assembled in August 2017. The District expects to proceed to the next unit for turbine repair after repair of the bridge cranes is completed. Rewind of the other three units was completed prior to the scheduled turbine repairs to optimize generation capability and reduce the outage duration. The turbine repairs on the first unit, C-8, were completed in December 2017. Based on the current schedule, all work on the remaining three units is expected to be complete by 2021. The District has confirmed insurance coverage for lost revenue and eligible repair expenditures on the turbines for two of the four units due to cracked servo rods; however, the extent of the coverage for the remaining two units will not be known until damage is confirmed following full disassembly. The repairs and the lost production time for these repairs are not expected to have an effect on District retail electric rates as the District has effective risk management plans in place. The hedging program, long-term contracts, insurance program and strong financial policies, have significantly reduced the overall impact from these type of events.
- Work continued on the B5-B10 modernization project in the first powerhouse at Rock Island Dam. Design and construction work has proceeded with costs within original estimates. The expected return to service date of the third unit, B-6, is in 2018. That will be followed by the fourth unit, B-7, which is scheduled to be completed in 2019. The remaining two units for the B5-B10 project, B-5 and B-8, are currently scheduled for modernization beginning in mid-2020 after the Habitat Conservation Plan (HCP) check-in. 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 is currently scheduled to begin in 2018 and be completed by 2020, before the 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 is 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 with $1.8 million earmarked for project planning in 2018.
- In 2017, the District's long-term debt was reduced by another $52 million as planned. Principal payments made during 2017 put the District's ratio of debt to equity at 38-percent and keeps the District on track to meet customer-owner expectations and achieve its strategic

plan financial goal of a debt ratio of less than 35-percent by 2019. In addition, the District continued to pay for capital improvements with cash while keeping the District in a strong financial position. Debt reduction is a top priority in the District's strategic planning for long-term financial stability.

- Fitch Ratings reaffirmed the District's AA+ rating and stable outlook. Key strengths included the District's valuable hydro generation, risk management of the District's cost-based and market-based wholesale sales, rapid debt reduction and strong financial performance.
- On January 1, 2017, a new electric rate for customers with energy intense loads of up to five average megawatts, such as server farms and similar technology operations including cryptocurrency mining, went into effect. The rate includes a transition period of up to five years for existing high density load (HDL) customers who can show they've made substantial investment and meet other criteria. Included is an upfront charge to offset the impacts from HDL customers on the District's electric system capacity. The rate structure was expected to cover the fair and reasonable costs of serving these rapidly growing businesses. The District continues to receive numerous inquiries about new large load power services from bitcoin and blockchain operations. The power needs are significant. The District continues to review plans to respond based on District values to ensure the best customer experience and value for existing customers while being responsive to potential new customers.
- District Commissioners approved a contract amendment that gave Alcoa Corporation more time to decide whether to restart the Wenatchee Works aluminum smelter in return for a payment that keeps District customer-owners financially neutral. The amendment allows a one-year deferral and restructuring of Alcoa's existing Power Sales Agreement. Under the prior agreement, should the Wenatchee Works plant remain curtailed through June 2017, a $67 million deferred capacity reservation charge would have become due. The deferred charge was specifically designed to encourage Alcoa to operate the plant. Alcoa advised that, while improving, the aluminum market did not support restart and that they wanted to work together on a plan that would preserve the restart option. Under the contract amendment, a large portion of the deferred charge was delayed until June 2018, and in return, Alcoa paid the District $7.3 million in June 2017 and extended the current collateral requirement to further protect customer-owners. The $7.3 million represented one year of the deferred power contract charge of $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. Other existing contract terms remain in place.
- Two new power sales contracts will provide more certainty for District wholesale revenue for 2019-2030. Each sale is for a 5-percent "slice" of power generated at Rocky Reach and Rock Island dams. The sales for five years starting in 2019 and for ten years starting in 2021 extend the District's successful hedging strategy that returns value to customer-owners by locking in revenue, and reducing risk from price swings in the wholesale market, variable streamflow and operations, which help keep electric rates stable.

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 its 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 2017 and $96 million in 2016, despite the continuing operating challenges of generating unit repairs at Rocky Reach and Rock Island, 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 the favorable results included expenses below budget combined with continued debt reduction that lowered interest expense.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2017	2016	2015	Increase (Decrease) 2017 – 2016
Current assets	$ 168	$ 120	$ 86	$ 48
Net utility plant	1,101	1,082	1,062	19
Other non-current assets	439	462	430	(23)
Deferred outflows of resources	14	18	15	(4)
Total assets and deferred outflows of resources	1,722	1,682	1,593	40
Current liabilities	117	118	105	(1)
Long-term debt	507	559	584	(52)
Other liabilities	170	187	174	(17)
Total liabilities	794	864	863	(70)
Deferred inflows of resources	35	30	38	5
Invested in capital assets, net of related debt	560	489	451	71
Restricted	146	160	162	(14)
Unrestricted	187	139	79	48
Total net position	$ 893	$ 788	$ 692	$ 105

(amounts in millions)	2017	2016	2015	Increase (Decrease) 2017 – 2016
Operating revenues	$ 373	$ 363	$ 370	$ 10
Less				
Operating expenses	251	246	236	5
Other (income) and expenses	22	25	37	(3)
Net income before capital contributions	100	92	97	8
Capital contributions	5	4	5	1
Change in net position	105	96	102	9
Total net position – beginning of year	788	692	590	96
Total net position – end of year	$ 893	$ 788	$ 692	$ 105

ASSETS

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.

Current assets increased by $34 million in 2016, primarily as a result of cash generated from the District's positive 2016 operating results. Both short-term cash and investment balances and long-term investment balances increased. The increase is attributable to cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves.

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.

As of December 31, 2016, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant increased $20 million in 2016. Additional investments in improvements at hydro-owned parks, modernization at the Rock Island hydroelectric project and electric distribution equipment and services were offset somewhat by annual depreciation.

Other noncurrent assets, which includes noncurrent restricted assets and other 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. Other noncurrent assets increased $32 million in 2016, due to the lengthening of investment strategies. It was anticipated that capital recovery and debt repayment fund balances would be used for future capital investment and debt repayment at the District's hydro projects.

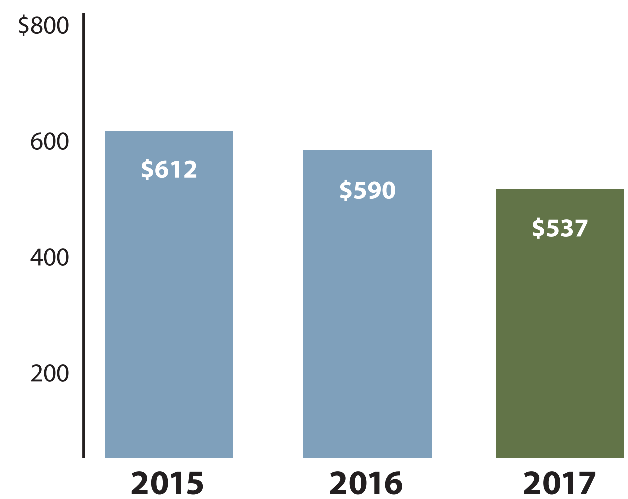
Deferred outflows of resources decreased $4 million and increased $3 million in 2017 and 2016, respectively. Both the decrease in 2017, as well as the increase in 2016 were due to changes in the actuarial valuation of the Public Employees' Retirement System (PERS) collective net pension liability for PERS plans 1, 2 and 3 in which the District participates. In 2016, the increases related to pensions were partially offset by the monthly amortization of losses on refunding debt.

LIABILITIES

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.

Current liabilities increased $13 million in 2016, primarily as a result of an increase in accounts payable resulting from higher accruals near the end of the year. Higher accruals were due to normal fluctuations in the amount and timing of billings, combined with increased purchases of energy in December 2016 as compared to December 2015. This was offset somewhat by the return of collateral for activity related to forward trades.

Total Debt Outstanding
(amounts in millions)



During 2017, scheduled maturities of debt combined with an additional $29 million in accelerated principal payments were partially offset by accretion of interest on capital appreciation bonds resulting in a decrease in total debt outstanding of $52 million. Total debt outstanding decreased by $22 million during 2016 due to scheduled maturities of debt partially offset by accretion of interest on capital appreciation bonds. These reductions in total debt contributed to the $52 million and $25 million reduction in long-term debt in 2017 and 2016, respectively, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2017 or 2016.

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

Other liabilities decreased by $17 million in 2017, 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. These amounts were received previously from power purchasers and are being recognized as revenue over the life of the agreements.

Other liabilities increased by $13 million in 2016, 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.

Deferred inflows of resources increased $5 million in 2017, 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.

Deferred inflows of resources decreased $8 million in 2016 due to the District recording its proportionate share of the decrease 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 $71 million and $38 million in 2017 and 2016, respectively. 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. The increase in 2016 reflects a reduction in debt primarily as a result of regularly scheduled repayments of bond principal 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 $14 million and $2 million in 2017 and 2016, respectively. The decrease in 2017 was primarily due to the use of cash restricted for construction of capital assets. The decrease in 2016 was primarily due to the reduction of collateral held for credit purposes related to forward energy transactions.

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 2017 and 2016, unrestricted net position increased $48 million and $60 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 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.

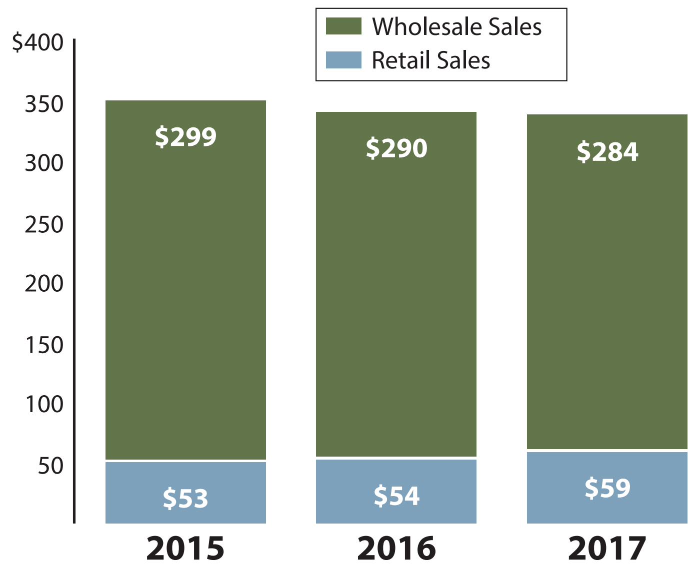
In 2016, wholesale sales decreased $9 million compared to 2015 primarily due to receiving a lower average price on the District's market-based and slice contract sales of surplus energy. The reduction in these revenues was partially offset by increased wholesale revenue related to the sale of energy under the District's long-term power sales agreements.

Purchased power costs decreased $13 million in 2016 compared to 2015 primarily due to a reduction in the average market price paid in 2016 compared to 2015, combined with a reduced volume of purchases made primarily in the preschedule/real-time market. Fewer preschedule/real time market purchases were needed as a result of having more surplus power available due to Alcoa's curtailment of its Wenatchee Works smelting facility.

Other income and expenses, which included net interest expense and income, decreased by $12 million in 2016 primarily as a result of a large loss recorded in 2015 due to losses on the early retirement of debt. There were no similar losses incurred during 2016.

In 2016, net income before capital contributions decreased $5 million compared to 2015 primarily due to a combination of receiving lower average prices on the District's wholesale sales of its surplus energy and increased operating and maintenance expenses driven by significant hydro generating unit repairs. Capital contributions remained flat from 2015 to 2016.

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 of the information provided in this report should be directed to the District at P.O. Box 1231, Wenatchee, WA 98807.

STATEMENTS OF NET POSITION

December 31, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 20,968	$ 23,405
Investments	85,290	37,419
Accounts receivable, net	27,736	31,879
Accrued interest receivable	1,937	1,653
Materials and supplies	12,831	12,498
Prepayments and other	1,488	1,149
Current portion of regulatory assets	2,978	2,978
	153,228	110,981
RESTRICTED ASSETS – CURRENT		
Cash and cash equivalents	2,798	3,486
Investments	11,379	5,573
	14,177	9,059
TOTAL CURRENT ASSETS	167,405	120,040
UTILITY PLANT		
In service, at original cost	2,001,513	1,970,190
Construction work in progress	85,677	58,473
Less-accumulated depreciation	(985,716)	(946,486)
	1,101,474	1,082,177
RESTRICTED ASSETS – NONCURRENT		
Cash and cash equivalents	5,555	7,273
Investments	144,466	160,544
	150,021	167,817
OTHER ASSETS		
Long-term receivables, net	506	623
Long-term investments	240,725	245,665
Regulatory assets, net	41,167	41,444
Derivative instrument asset	6,405	6,077
Other	324	202
	289,127	294,011
TOTAL ASSETS	1,708,027	1,664,045
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	6,063	7,193
Pensions	7,433	11,291
	13,496	18,484
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,721,523	$ 1,682,529

The accompanying notes are an integral part of these financial statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2017	2016
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 35,894	$ 37,097
Current portion of unearned wholesale power sales	8,902	8,430
Accounts payable	46,580	46,847
Accrued taxes	4,139	3,826
Accrued interest	6,462	7,389
Accrued vacation and other	14,999	14,225
	116,976	117,814
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	506,537	559,492
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	92,226	95,682
Net pension liability	49,688	63,480
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	8,960	8,725
Other liabilities	384	873
	169,758	187,260
TOTAL LIABILITIES	793,271	864,566
DEFERRED INFLOWS OF RESOURCES		
Derivatives	6,405	6,077
Pensions	8,125	1,132
Regulatory liabilities	20,971	22,974
	35,501	30,183
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Net investment in capital assets	559,490	488,676
Restricted	146,373	160,409
Unrestricted	186,888	138,695
	892,751	787,780
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,721,523	$ 1,682,529

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS

For the years ended December 31, 2017 and 2016

(amounts in thousands)	2017	2016
OPERATING REVENUES		
Retail sales	$ 59,248	$ 54,005
Wholesale sales	283,889	289,990
Other operating revenues	29,720	18,835
	372,857	362,830
OPERATING EXPENSES		
Purchased power and water	42,976	35,518
Generation	90,755	99,223
Utility services	48,584	44,273
Taxes	8,891	7,690
Depreciation and amortization	47,534	47,296
Other operation and maintenance	11,935	12,301
	250,675	246,301
OPERATING INCOME	122,182	116,529
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(26,718)	(28,227)
Amortization of deferred debt costs	(740)	(809)
Investment income	7,959	6,802
Federal subsidy income	587	587
Other	(3,601)	(3,224)
	(22,513)	(24,871)
INCOME BEFORE CAPITAL CONTRIBUTIONS	99,669	91,658
CAPITAL CONTRIBUTIONS	5,302	4,027
CHANGE IN NET POSITION	104,971	95,685
TOTAL NET POSITION		
Beginning of year	787,780	692,095
TOTAL NET POSITION		
End of year	$ 892,751	$ 787,780

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016

amounts in thousands)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 370,053	$ 355,772
Payments to suppliers	(121,533)	(104,377)
Payments to employees	(89,566)	(84,384)
Insurance proceeds	3,943	-
Net cash provided by operating activities	162,897	167,011
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(65,330)	(60,382)
Proceeds from sale of plant	210	317
Principal paid on debt	(64,338)	(34,833)
Interest paid on debt	(15,216)	(15,490)
Capital contributions	4,668	3,275
Other	319	(763)
Net cash used in capital and related financing activities	(139,687)	(107,876)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(180,980)	(253,245)
Proceeds from sales and maturities of investments	145,745	186,016
Interest on investments	7,699	6,398
Long-term receivables	117	337
Other, net	(634)	1,081
Net cash used by investing activities	(28,053)	(59,413)
Net Decrease in Cash and Cash Equivalents	(4,843)	(278)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	34,164	34,442
CASH & CASH EQUIVALENTS, END OF YEAR	$ 29,321	$ 34,164
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 122,182	$ 116,529
Depreciation and amortization	47,534	47,296
(Increase) decrease in operating assets:		
Accounts receivable, net	4,143	(4,078)
Materials and supplies	(333)	630
Prepayments	(339)	54
Other	(881)	(372)
Deferred outflows of resources	3,857	(4,924)
Increase (decrease) in operating liabilities:		
Accounts payable	(4,603)	9,618
Accrued taxes	313	110
Accrued vacation and other	774	914
Unearned wholesale revenue	(4,170)	(102)
Customer deposits	896	(3,530)
Net pension liability	(13,790)	11,664
Deferred inflows of resources	7,314	(6,798)
Net cash provided by operating activities	$ 162,897	$ 167,011
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 3,440	$ 5,040
Capital contributions	65	182
Amortization of regulatory assets	(1,595)	(1,218)

The accompanying notes are an integral part of these financial statements.

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 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 June 2015, GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68". This statement was effective for the District beginning in fiscal year 2017. Implementation of this statement did not have a material impact to the District's financial statements.

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of these statements is to improve both the usefulness of information about postemployment benefits other than pensions (OPEB) included in the external financial reports of state and local OPEB plans and the accounting and financial reporting by state and local governments for OPEB. The statements replace Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." These statements establish 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 OPEB are also addressed. Statement No. 74 was effective for fiscal year 2017. Implementation of the Statement did not impact the District's financial statements. Statement No. 75 is effective for fiscal year 2018. The District is currently evaluating the financial statement impact of adopting this statement.

During the first quarter of 2016, GASB issued Statement No. 80, "Blending Requirements for Certain Component Units — an amendment of GASB Statement No. 14," Statement No. 81, "Irrevocable Split-Interest Agreements," and Statement No. 82, "Pension Issues — an amendment of GASB Statements No. 67, No. 68 and No. 73." These statements were all effective for the District beginning in fiscal year 2017. Implementation of these statements did not have a material impact to the District's financial statements.

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 are effective for fiscal year 2018. The District is currently evaluating the financial statement impact of implementing these 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.

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 $2.5 million in both 2017 and 2016. 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, in addition to charges for capital recovery, debt reduction 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 and debt service costs. 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.

Under the amendment, if Alcoa restarts its Wenatchee Works smelting facility to levels required in the contract before June 2018, the original contract terms apply. If the plant remains curtailed, the remaining $62 million balance will be due in June 2018 and the contract and original terms will continue.

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, 2017, 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, 2017 and December 31, 2016, booked-out energy transactions amounted to $53.1 million and $47.3 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, 2017, the District had three significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $164.2 million. The District had four significant customers for the year ended December 31, 2016, collectively comprising total revenue of $213.2 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 2017 and 2016, 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 layered 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 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. In addition, 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 2016 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 $101,000 and $111,000 at December 31, 2017 and 2016, 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 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, including an allowance for funds used during construction (AFUDC) for major non-hydro system projects. 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.

SUBSEQUENT EVENTS

The District has evaluated all subsequent events through April 20, 2018, 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, 2017, and events which occurred subsequent to December 31, 2017, 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 agent 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)	2017	2016
Unrestricted assets		
Unrestricted	$ 83,589	$ 74,673
Board designated	263,394	231,816
Total unrestricted assets	346,983	306,489
Restricted assets	164,198	176,876
	$ 511,181	$ 483,365

As of December 31, 2017 and 2016, the District had the following cash and investments:

(amounts in thousands) Investment Type	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

(amounts in thousands) Investment Type	Total 2016	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 85,891	$ -	$ 25,117	$ 34,432	$ 26,342
U.S. Treasury Strips	16,984	-	2,473	-	14,511
U.S. Agency Notes	156,594	-	61,252	5,593	89,749
U.S. Agency Bills	80,927	49,678	16,444	13,038	1,767
Municipal Bonds	108,803	25,192	27,073	43,964	12,574
State Investment Pool	22,576	22,576	-	-	-
Cash Deposits	11,590	11,590	-	-	-
	$ 483,365	$ 109,036	$ 132,359	$ 97,027	$ 144,943

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, 2017 and 2016:

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

Investments (amounts in thousands)	Total 2016	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 85,891	$ 85,891	$ -	$ -	$ -	$ -
U.S. Treasury Strips	16,984	16,984	-	-	-	-
U.S. Agency Notes	156,594	-	156,594	-	-	-
U.S. Agency Bills	80,927	-	62,000	-	-	18,927
Municipal Bonds	108,803	-	94,092	-	-	14,711
State Investment Pool	22,576	-	-	-	-	22,576
Cash Deposits	11,590	-	-	-	-	11,590
Total Investments	$ 483,365	$ 102,875	$ 312,686	$ -	$ -	$ 67,804

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, 2017 and 2016, investments in debt securities had credit quality ratings as follows:

INVESTMENT RATING (S&P EQUIVALENT)

(amounts in thousands)	2017	2016
Long Term		
AAA	$ 39,793	$ 37,147
AA+	250,108	251,581
AA	47,825	13,511
AA-	32,145	29,685
A+	7,850	2,119
Short Term		
A-1+	3,505	9,055
	$ 381,226	$ 343,098

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 $5.0 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, 2017 and 2016, 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 2017	2016
Federal Farm Credit Bank	AA+	16%	10%
Federal Home Loan Bank	AA+	12%	10%
Federal National Mortgage Association	AA+	12%	18%
Financing Corporation	AAA	6%	7%

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, 2017, are provided below.

FORWARD PURCHASE AGREEMENT

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/17 Fair Value	12/31/16 Fair Value
Wells Fargo Bank, N.A.	Aa2/AA-/AA-	6.63%	$ 18,820,179	12/22/1999	6/1/2029	$ 6,405,000	$ 6,077,000

As of December 31, 2017 and 2016, 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 declining interest rates, the forward purchase agreement had a positive fair value to the District as of December 31, 2017 and 2016. 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, 2017 and 2016 is as follows:

(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	

(amounts in thousands)	January 1, 2016	Additions	Reductions and Transfers	December 31, 2016	Depreciation Expense
Hydroelectric generation	$ 1,216,578	$ 16,025	$ (7,422)	$ 1,225,181	$ 27,803
Transmission	152,332	3,109	(574)	154,867	3,025
Distribution	233,711	9,262	(1,712)	241,261	6,386
General plant	135,107	7,279	(1,542)	140,844	4,331
Intangible	39,533	165	-	39,698	1,528
Telecommunications	87,763	3,586	(4,296)	87,053	2,573
Water/ Wastewater	79,371	2,157	(242)	81,286	1,650
	1,944,395	41,583	(15,788)	1,970,190	$ 47,296
Construction work in progress	31,516	68,194	(41,237)	58,473	
Accumulated depreciation	(914,304)	(47,296)	15,114	(946,486)	
	$ 1,061,607	$ 62,481	$ (41,911)	$ 1,082,177	

Plant assets include land of $73.0 million and $71.9 million as of December 31, 2017 and 2016, 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. A determination of coverage for the two additional units will be made once the units are disassembled for permanent repairs.

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.

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 licensing 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 and $9.8 million as of December 31, 2017 and 2016, respectively. 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 licensing obligations, accounted for as intangible assets, for the years ended December 31, 2017 and 2016 are as follows:

(amounts in thousands)	2017	2016
Licensing obligation - beginning of year	$ 9,799	$ 9,964
Additions	160	165
Reductions	(567)	(330)
Licensing obligation - end of year	$ 9,392	$ 9,799

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, upgrades to Entiat, Daroga and Lincoln Rock parks and new trails. 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. Future costs of implementing the license requirements cannot be reasonably estimated; therefore, no obligation has been recorded and 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, 2017 and 2016.

(amounts in thousands)	2017	2016
Regulatory Assets:		
Swap termination payments	$ 19,771	$ 22,340
Conservation expenses	13,877	11,815
Debt issuance costs	5,732	6,759
Fair Value of Investments	4,765	3,508
	$ 44,145	$ 44,422
Regulatory Liabilities:		
Contributed Capital	$ 19,990	$ 20,702
Fair Value of Investments	981	2,272
	$ 20,971	$ 22,974

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, 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

(amounts in thousands)	January 1, 2016	Additions	Reductions	December 31, 2016	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2017, to July 1, 2034 (net unamortized premiums of $275)	$ 13,938	$ -	$ (478)	$ 13,460	$ 470
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2017, to July 1, 2029 (net unamortized premiums of $30)	233,861	12,995	(23,106)	223,750	23,115
Notes Payable, 0.25% to 2%, due June 1, 2017, to June 1, 2031	8,732	-	(805)	7,927	763
Consolidated System Revenue Bonds, 3% to 6.897%, due July 1, 2017, to July 1, 2042 (net unamortized premiums of $5,881)	362,925	15	(12,562)	350,378	11,675
	$ 619,456	$ 13,010	$ (36,951)	$ 595,515	$ 36,023

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

PRINCIPAL AND INTEREST

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2018	$ 35,462	$ 13,139	$ 48,601
2019	36,517	12,233	48,750
2020	53,829	10,976	64,805
2021	51,105	9,757	60,862
2022	52,325	8,636	60,961
2023-2027	254,011	22,703	276,714
2028-2032	127,020	5,107	132,127
2033-2037	10,475	2,252	12,727
2038-2042	3,900	272	4,172
Total	$ 624,644	$ 85,075	$ 709,719

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $625 million also include $87 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, 2017, 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 will be in effect through April 17, 2019. The District pays Union Bank a commitment fee of 40 basis points as prescribed in the Replacement Credit Facility. If any 2008B bonds are purchased and held by Union Bank, the bonds will bear interest at a fluctuating annual rate as specified by the Replacement Credit Facility, which would be at least 600 basis points. In addition, any 2008B bonds purchased and held under the Replacement Credit Facility are subject to special mandatory redemption over a four-year period in eight equal semi-annual principal installments. As of December 31, 2017, Union Bank 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, 2017 and 2016, 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. Of the total kilowatt-hours purchased by the electric distribution system during 2017, approximately 23% was provided by the Rocky Reach project, 11% by the Rock Island project, 4% by the Lake Chelan project and 62% from other sources. Power purchases from external sources amounted to $43 million 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 2017 were as follows:

PERS PLAN 1

Actual Contribution Rates:	Employer	Employee
January through June 2017	11.18%	6.00%
July through December 2017	12.70%	6.00%

For the years ended December 31, 2017 and 2016, the District's actual contributions to the plan were $53,000 and $50,000, 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 1 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 2017 were as follows:

PERS PLAN 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2017	11.18%	6.12%
July through December 2017	12.70%	7.38%
Employee PERS Plan 3		varies

** For employees participating in the judicial benefit multiplier program (JBM), the contribution rate was 15.3% for the period January through June 2017, and 18.45% for the period July through December 2017.*

For the years ended December 31, 2017 and 2016, the District's actual contributions to the plans were $8.3 million and $7.3 million, respectively.

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

At December 31, 2017 and 2016, the District reported a total pension liability of $49.7 million and $63.5 million, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
(amounts in thousands)	2017	2016
PERS 1	$ 25,768	$ 29,161
PERS 2/3	$ 23,920	$ 34,318

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

	Proportionate Share 12/31/17	Proportionate Share 12/31/16	Change in Proportion
PERS 1	.543040%	.542981%	.000059%
PERS 2/3	.688436%	.681594%	.006842%

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, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

PENSION EXPENSE

For the years ended December 31, 2017 and 2016, the District recognized pension expense as follows:

(amounts in thousands)	Pension Expense 2017	2016
PERS 1	$ 1,569	$ 2,298
PERS 2/3	3,692	4,833
TOTAL	$ 5,261	$ 7,131

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2017 and 2016, 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 2017	Deferred Inflows of Resources 2017	Deferred Outflows of Resources 2016	Deferred Inflows of Resources 2016
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	962	734	-
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	1,808		1,613	
TOTAL	$ 1,808	$ 962	$ 2,347	$ -

PERS PLAN 2/3

(amounts in thousands)	Deferred Outflows of Resources 2017	Deferred Inflows of Resources 2017	Deferred Outflows of Resources 2016	Deferred Inflows of Resources 2016
Differences between expected and actual experience	$ 2,423	$ 787	$ 1,828	$ 1,132
Net difference between projected and actual investment earnings on pension plan investments	-	6,376	4,200	-
Changes of assumptions	254	-	355	-
Changes in proportion and differences between contributions and proportionate share of contributions	333	-	484	-
Contributions subsequent to the measurement date	2,615	-	2,077	-
TOTAL	$ 5,625	$ 7,163	$ 8,944	$ 1,132

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
2018	$ 1,158	$ 226
2019	205	830
2020	(48)	(524)
2021	(469)	(2,565)
2022	-	216
Thereafter	-	280
Total	$ 846	$ 1,537

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, 2018.

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 2017 with a valuation date of June 30, 2016. 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 *2015 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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 7.5%.

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 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% 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 7.5% was used to determine the total liability.

Long-Term Expected Rate of Return. OSA selected a 7.5% long-term expected rate of return on pension plan investments using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns 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, 2017, 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	5%	4.9%
Real Estate	15%	5.8%
Global Equity	37%	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 7.5%, 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 (6.5%) or 1-percentage point higher (8.5%) than the current rate.

(amounts in thousands)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 31,390	$ 25,768	$ 20,898
PERS 2/3	$ 64,443	$ 23,920	$ (9,283)

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 $9,000 or up to a maximum of $12,000 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2017 and 2016 were $2.1 million and $1.9 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 healthcare insurance until the age of 65 for retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. The retiree medical plan does not issue a publicly available financial report.

FUNDING POLICY

The District's subsidy of the cost of 2017 and 2016 premiums for eligible retired plan members and their spouses amounted to $83,000 and $93,000, respectively. Plan members receiving benefits contributed 79% of the premium costs for years 2017 and 2016. For the years ended December 31, 2017 and 2016, total member contributions were $318,000 and $352,000, respectively. 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.

ANNUAL OTHER POSTEMPLOYMENT BENEFIT COST AND NET OBLIGATION

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. The District's OPEB plan was fully funded as of both December 31, 2017 and 2016. As a result, the District's annual OPEB cost and net OPEB obligation were zero as of both December 31, 2017 and 2016.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 through 2017 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/17	$ -	0%	$ -
12/31/16	-	0%	-
12/31/15	-	0%	-

FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2017 and 2016, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $62.8 million and $59.0 million for 2017 and 2016, respectively. The ratio of the current ARC to the covered payroll was 0.0%.

Plan assets are held in an irrevocable trust by a third party fiduciary. Accordingly, plan assets and the corresponding liability are not included in the financial statements of the District.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Actuarial valuations are as of the last actuarial report dated January 1, 2017.

METHODS AND ASSUMPTION

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of the valuation and the sharing of benefit costs between the employer and plan members in effect at the time of the valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions are integral to the actuarial calculations:

Actuarial Method — The Entry Age Normal method is used to develop an Annual Required Contribution and an Actuarial Accrued Liability in accordance with accepted actuarial methods.

Retirement age for active employees — Based on assumptions used by Washington Public Employees' Retirement System (PERS).

Inflation rate — An inflation rate of 3.0% was used for 2013 and thereafter. Inflation rates are based upon the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Discount rate — The actuarial assumptions included a 5.0% investment rate of return based on historical returns of investments currently held in the OPEB Trust Fund.

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, 2017 and 2016, 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 2017	Rock Island 2017	Rocky Reach 2016	Rock Island 2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 8,494	$ 5,672	$ 7,810	$ 4,105
Restricted assets – current	2,831	8,103	1,836	5,367
Total current assets	11,325	13,775	9,646	9,472
Utility plant, net	300,516	360,829	308,155	338,361
Restricted assets – noncurrent	51,034	72,352	50,987	88,076
Other assets	7,722	17,818	8,946	18,710
Deferred outflows of resources	2,068	4,531	3,127	5,824
Total assets and deferred outflows of resources	$ 372,665	$ 469,305	$ 380,861	$ 460,443
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 19,072	$ 46,984	$ 26,416	$ 44,819
Long-term debt	137,493	294,807	151,836	311,335
Other liabilities	31,090	32,024	35,337	36,848
Total liabilities	187,655	373,815	213,589	393,002
Deferred inflows of resources	2,317	27,579	420	25,893
Net Position:				
Invested in capital assets, net of related debt	287,478	151,462	294,365	119,436
Restricted	44,773	71,351	43,758	84,363
Unrestricted	(149,558)	(154,902)	(171,271)	(162,251)
Total net position	182,693	67,911	166,852	41,548
Total liabilities, deferred inflows of resources and net position	$ 372,665	$ 469,305	$ 380,861	$ 460,443

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2017	Rock Island 2017	Rocky Reach 2016	Rock Island 2016
Operating revenues	$ 100,598	$ 102,858	$ 109,814	$ 101,008
Less:				
Operating expenses	56,801	44,427	65,363	42,910
Depreciation and amortization	17,299	10,322	16,951	11,297
Operating income	26,498	48,109	27,500	46,801
Other expense	10,947	23,035	11,973	23,930
Income before capital contributions and interfund equity transfers	15,551	25,074	15,527	22,871
Capital contributions	-	1,097	-	678
Interfund equity transfers	290	192	-	-
Change in net position	15,841	26,363	15,527	23,549
Total net position — beginning of year	166,852	41,548	151,325	17,999
Total net position — end of year	$ 182,693	$ 67,911	$ 166,852	$ 41,548

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2017	Rock Island 2017	Rocky Reach 2016	Rock Island 2016
Net cash provided (used) by:				
Operating activities	$ 41,664	$ 57,953	$ 54,852	$ 68,785
Capital and related financing activities	(41,645)	(72,384)	(43,542)	(64,274)
Investing activities	(956)	12,311	(11,099)	(5,071)
Net increase /(decrease)	(937)	(2,120)	211	(560)
Beginning cash and cash equivalents	4,792	6,514	4,581	7,074
Ending cash and cash equivalents	$ 3,855	$ 4,394	$ 4,792	$ 6,514

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, 2017 and 2016 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, 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
(amounts in thousands)	**Property & Liability**	**Workers Compensation**	**Medical & Health**	**Dental**
Claims Liability as of January 1, 2016	$ -	$ 77	$ 1,656	$ 157
Claims accrued	167	583	12,413	1,014
Claims reimbursed	(451)	-	-	-
Claims (paid)/reimbursed - net	309	(572)	(12,168)	(1,014)
Claims Liability as of December 31, 2016	$ 25	$ 88	$ 1,901	$ 157
Commercial Insurance Deductible as of December 31, 2017 and 2016	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 50-year plans had been signed by 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. 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 HCP's 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 (the Service) 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. The District provided the Service comments to the subsequent Draft Mid-Columbia Recovery Unit Implementation Plan (RUIP) released on June 2, 2015, for the Bull Trout Recovery Plan. The District continues to work with the Service to refine the scientific elements of the RUIP describing potential hydro impacts on bull trout. 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 2016. 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 WQ standards 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

During 2005, the District entered into a contract to rehabilitate the first of up to six generating units at Powerhouse 1 at Rock Island. The first two units (B9 & B10) were completed under the contract for unit rehabilitation. In 2010, in response to unfavorable economic conditions impacting the District, it was decided that the District defer the rehabilitation of several units until such time as the units began to experience failure or were declared unavailable due to operational concerns. Since 2010, and after an in-depth economic analysis in 2014, it was recommended that it was in the best interest of the District to proceed with rehabilitation of units B5 through B8. In 2015, further analysis was performed, and it was identified that there was additional value in installing new higher efficiency turbines that were not considered in the original analysis. The expanded scope and additional field work orders increased the contract price for the third unit to \$20.3 million. As of December 31, 2017, the remaining commitment for the third unit totaled approximately \$0.8 million. Also in 2015, a change order in the amount of \$31.4 million was entered into for the work to be performed on the fourth unit, as well as turbine components for the fifth and sixth units, which was later revised via a change order to \$31.9 million. As of December 31, 2017, the remaining commitment for the fourth unit was \$12.7 million. In 2016, two change orders in the amount of \$6.2 million each were entered into for additional turbine and generator equipment for the fifth and sixth units. As of December 31, 2017, the remaining commitments for the two change orders were \$4.7 million and \$4.2 million. In December 2016, Commissioners authorized staff to award a \$41.8 million contract after a competitive bid process supporting an overall \$64.0 million project budget to move forward with updated plans for modernization of Rock Island Dam units B1-B4. The contract award included taking advantage of a \$1.2 million contract discount by awarding a project schedule that returns three of the four units by mid-2019 and the fourth unit by late 2019, well in advance of the HCP check-in starting in the spring of 2020. During 2017, field work orders increased the contract by \$4.5 million to a total of \$46.3 million. As of December 31, 2017, the remaining construction commitment for units B1-B4 was \$42.2 million.

During 2012, the District entered into a \$4.9 million contract for the programming and supply of digital turbine governors and unit controllers at Rocky Reach and Rock Island. The contract included replacement of the electronic portion of the governors, associated interface devices to the hydraulic portion and the unit controls with the new programmable logic controller based systems. The original contract was later amended for a total cost of \$5.6 million. As of December 31, 2017, the remaining construction commitment totaled approximately \$2.3 million.

During 2014, the District entered into a \$21.8 million contract for turbine repairs for the four largest units at Rocky Reach, units C-8 through C-11 which was later revised via change order to \$19.9 million. Components of turbine runners have failed and need repair. Runner repair will require disassembly of the turbine and work on associated turbine parts to return the units to reliable service. In 2016, the contractor notified the District that a significant number of cracks were being observed in the first unit's outer head cover and that contractor was unsure as to the nature and cause. After further investigation, it was determined that the outer head covers for all four units were not repairable to the contract specification of an additional 30 years of operations, and that the District would procure new outer head covers. The contract scope was modified to remove the work associated with the repair of the outer head covers, resulting in a contract price decrease in the amount of \$1.9 million. The first unit was completed in December 2017. The second unit is scheduled to be completed in 2019, the third unit in 2020 and the final unit completed in 2021. As of December 31, 2017, the remaining commitment totaled approximately \$4.1 million for the second unit and \$8.2 million for the remaining two units. The District entered into a separate \$2.9 million contract for procurement of new head covers, which was later increased to a total contract amount of \$3.0 million. As of December 31, 2017, the remaining commitment totaled approximately \$0.7 million.

During 2015, the District also entered into a \$17.4 million contract, which was later revised via change order to \$18.7 million, to provide Rocky Reach units C-8 through C-11 stator winding replacement. The contract included a three-year warranty and an option to increase the warranty to five years for each unit, as well as the option to refurbish the rotor poles of unit C-9. As of December 31, 2017, the remaining commitment totaled approximately \$1.8 million.

During 2016, the District entered into a \$4.4 million contract, and later amended for a total of \$5.0 million, for the refurbishment of existing bridge cranes at Rocky Reach Dam. As of December 31, 2017, the remaining commitment totaled approximately \$0.9 million.

POWER MARKETING

As of December 31, 2017, the District had entered into forward block contracts obligating it to deliver approximately 5,776,000 MWh of energy at various times during each of the years in the period 2018-2022. The District expects to receive approximately $194.7 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 2018-2030, in exchange for approximately $461.4 million.

The District has committed to purchase approximately 3,664,000 MWh of energy at a cost of approximately $86.5 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, 2017, the District's share of bond principal was $4.3 million and was not to exceed $5.4 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 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)	2017	2016
Operating revenues		
Wholesale fiber services	$ 6,395	$ 6,267
Fiber leasing	683	598
Intradistrict revenues	3,311	2,452
Total operating revenues	10,389	9,317
Operating expenses		
Administrative and general	1,613	1,542
Repairs and maintenance	1,165	1,059
Other operating	3,234	3,233
Depreciation expense	2,609	2,573
Total operating expense	8,621	8,407
Operating income	1,768	910
Other income/(expense)	192	(12)
Net income before capital contributions	1,960	898
Capital contributions	129	23
Interfund equity transfers	2,100	-
Change in net position	$ 4,189	$ 921

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2017 and 2016:

(amounts in thousands)	2017	2016
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 15,870	$ 12,662
Utility plant, net and other assets	49,910	46,254
Total assets	65,780	58,916
Deferred outflows of resources	341	509
Total assets and deferred outflows of resources	$ 66,121	$ 59,425
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 2,738	$ 545
Deferred inflows of resources	382	68
Net position	63,001	58,812
Total liabilities, deferred inflows of resources and net position	$ 66,121	$ 59,425

The District's capital investment in telecommunications plant and equipment, net of retirements, for 2017 and 2016 was $3.2 million and $(0.4 million), respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2017, was $92.5 million. The capital investment, as well as cumulative net losses, was funded by interfund equity transfers.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(dollars in thousands)	PERS Plan 1 2017	PERS Plan 1 2016	PERS Plan 2/3 2017	PERS Plan 2/3 2016
Proportion of the net pension liability	.543040%	.542981%	.688436%	.681594%
Proportionate share of the net pension liability	$ 25,768	$ 29,161	$ 23,920	$ 34,318
Covered-employee payroll	448	447	69,866	65,077
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	5,751.79%	6,523.71%	34.24%	52.73%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	90.97%	85.82%

PERS PLAN 1

Schedule of the District's Contributions

(dollars in thousands)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 53	$ 50	$ 64	$ 70	$ 74	$ 75	$ 78	$ 69	$ 153	$ 160
Contributions in relation to the contractually required contribution	(53)	(50)	(64)	(70)	(74)	(75)	(78)	(69)	(153)	(160)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 448	$ 447	$ 630	$ 765	$ 913	$ 1,047	$ 1,332	$ 1,301	$ 2,152	$ 2,254
Contributions as a percentage of covered-employee payroll	11.83%	11.18%	10.21%	9.21%	8.11%	7.20%	5.82%	5.31%	7.11%	7.12%

PERS PLAN 2/3

Schedule of the District's Contributions

(dollars in thousands)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 8,328	$ 7,276	$ 6,539	$ 5,428	$ 4,575	$ 3,943	$ 3,284	$ 2,795	$ 3,514	$ 3,649
Contributions in relation to the contractually required contribution	(8,328)	(7,276)	(6,539)	(5,428)	(4,575)	(3,943)	(3,284)	(2,795)	(3,514)	(3,649)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 69,866	$ 65,077	$ 64,259	$ 58,959	$ 56,186	$ 54,778	$ 53,085	$ 52,632	$ 51,144	$ 50,726
Contributions as a percentage of covered-employee payroll	11.92%	11.18%	10.18%	9.21%	8.14%	7.20%	6.19%	5.31%	6.87%	7.19%

SCHEDULE OF FUNDING PROGRESS FOR POSTRETIREMENT HEALTH BENEFITS PROGRAM

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c))
1/1/2017	$ 1,493,891	$ 1,010,618	$ (483,273)	148%	$ 58,951,459	(0.82)%
1/1/2015	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
1/1/2013	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
1/1/2011	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%
1/1/2009	1,791,487	1,573,100	(218,387)	114%	49,003,415	(0.45)%
1/1/2007	2,177,526	2,177,526	-	100%	46,311,261	0.00%

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COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2017, with comparative totals for December 31, 2016

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2017	2016
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 60,088	$ -	$ -	$ (840)	$ 59,248	$ 54,005
Wholesale sales	99,684	102,715	7,909	219,799	8,379	-	(154,597)	283,889	289,990
Other operating revenues	914	143	1,085	37,582	-	19,352	(29,356)	29,720	18,835
	100,598	102,858	8,994	317,469	8,379	19,352	(184,793)	372,857	362,830
OPERATING EXPENSES									
Purchased power and water	-	-	-	194,261	-	-	(151,285)	42,976	35,518
Generation	55,541	43,806	5,485	-	-	-	(14,077)	90,755	99,223
Utility services	-	-	-	65,840	-	-	(17,256)	48,584	44,273
Taxes	1,260	621	102	6,908	-	-	-	8,891	7,690
Depreciation and amortization	17,299	10,322	1,902	13,932	-	4,079	-	47,534	47,296
Other operation and maintenance	-	-	-	-	-	14,110	(2,175)	11,935	12,301
	74,100	54,749	7,489	280,941	-	18,189	(184,793)	250,675	246,301
OPERATING INCOME	26,498	48,109	1,505	36,528	8,379	1,163	-	122,182	116,529
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(648)	(12,723)	-	(44)	(13,303)	-	-	(26,718)	(28,227)
Interest on intersystem loans	(10,729)	(9,887)	(700)	-	21,316	-	-	-	-
Amortization of regulatory assets - debt issuance costs	(20)	(265)	-	-	(455)	-	-	(740)	(809)
Investment income	915	2,297	116	2,821	1,454	356	-	7,959	6,802
Federal subsidy income	-	-	-	-	587	-	-	587	587
Other	(465)	(2,457)	(1,153)	3,509	(2,792)	(243)	-	(3,601)	(3,224)
	(10,947)	(23,035)	(1,737)	6,286	6,807	113	-	(22,513)	(24,871)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND EQUITY TRANSFERS	15,551	25,074	(232)	42,814	15,186	1,276	-	99,669	91,658
CAPITAL CONTRIBUTIONS	-	1,097	-	4,205	-	-	-	5,302	4,027
INTERFUND EQUITY TRANSFERS	290	192	-	(482)	-	-	-	-	-
CHANGE IN NET POSITION	15,841	26,363	(232)	46,537	15,186	1,276	-	104,971	95,685
TOTAL NET POSITION									
Beginning of year	166,852	41,548	77,593	417,752	75,553	8,482	-	787,780	692,095
TOTAL NET POSITION									
End of year	$ 182,693	$ 67,911	$ 77,361	$ 464,289	$ 90,739	$ 9,758	$ -	$ 892,751	$ 787,780

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, 2017 and 2016

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2017	2016
CURRENT ASSETS									
Cash and cash equivalents	$ 613	$ 686	$ 465	$ 12,681	$ 5,433	$ 1,090	$ -	$ 20,968	$ 23,405
Investments	2,497	2,790	1,890	51,581	22,099	4,433	-	85,290	37,419
Accounts receivable, net	1,673	1,541	22	24,484	-	16	-	27,736	31,879
Accrued interest receivable	240	282	27	774	523	91	-	1,937	1,653
Materials and supplies	3,034	-	-	9,453	-	344	-	12,831	12,498
Prepayments and other	408	346	61	668	-	5	-	1,488	1,149
Current portion of regulatory assets	29	27	-	51	2,865	6		2,978	2,978
	8,494	5,672	2,465	99,692	30,920	5,985	-	153,228	110,981
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	559	1,599	1	197	-	442	-	2,798	3,486
Investments	2,272	6,504	-	803	-	1,800	-	11,379	5,573
	2,831	8,103	1	1,000	-	2,242	-	14,177	9,059
TOTAL CURRENT ASSETS	11,325	13,775	2,466	100,692	30,920	8,227	-	167,405	120,040
UTILITY PLANT									
In service, at original cost	636,368	576,899	122,444	561,484	-	104,318	-	2,001,513	1,970,190
Construction work in progress	7,044	69,702	66	7,026	-	1,839	-	85,677	58,473
Less-accumulated depreciation	(342,896)	(285,772)	(33,758)	(249,510)	-	(73,780)	-	(985,716)	(946,486)
	300,516	360,829	88,752	319,000	-	32,377	-	1,101,474	1,082,177
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	2,683	2,109	-	-	763	-	-	5,555	7,273
Investments	48,351	70,243	-	2,267	18,524	5,081	-	144,466	160,544
	51,034	72,352	-	2,267	19,287	5,081	-	150,021	167,817
OTHER ASSETS									
Long-term receivables, net	-	-	-	506	-	-	-	506	623
Long-term investments	7,042	7,876	5,332	145,587	62,375	12,513	-	240,725	245,665
Regulatory assets, net	630	3,487	58	15,708	21,066	218	-	41,167	41,444
Derivative instrument asset	-	6,405	-	-	-	-	-	6,405	6,077
Other	50	50	-	13,253	-	23	(13,052)	324	202
	7,722	17,818	5,390	175,054	83,441	12,754	(13,052)	289,127	294,011
TOTAL ASSETS	370,597	464,774	96,608	597,013	133,648	58,439	(13,052)	1,708,027	1,664,045
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	2,443	-	-	3,620	-	-	6,063	7,193
Pensions	2,068	2,088	248	3,029	-	-	-	7,433	11,291
	2,068	4,531	248	3,029	3,620	-	-	13,496	18,484
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 372,665	$ 469,305	$ 96,856	$ 600,042	$ 137,268	$ 58,439	$ (13,052)	$ 1,721,523	$ 1,682,529

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

COMBINING SCHEDULE OF ASSETS AND DEFERRED OUTFLOWS OF RESOURCES AND LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (CONT.)

For the years ended December 31, 2017 and 2016

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2017	2016
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 13,091	$ 28,200	$ 1,834	$ 737	$ (7,968)	$ -	$ -	$ 35,894	$ 37,097
Current portion of unearned wholesale power sales	693	690	-	6,894	625	-	-	8,902	8,430
Accounts payable	6,233	19,441	643	13,189	71	7,003	-	46,580	46,847
Accrued taxes	1,315	656	104	1,819	-	245	-	4,139	3,826
Accrued interest	318	144	-	17	5,983	-	-	6,462	7,389
Intersystem payables (receivables)	(2,605)	(2,177)	(366)	12,599	-	(7,451)	-	-	-
Accrued vacation and other	27	30	3	51	-	14,888	-	14,999	14,225
	19,072	46,984	2,218	35,306	(1,289)	14,685	-	116,976	117,814
LONG-TERM DEBT									
Revenue bonds and notes payable	12,959	213,057	-	7,164	308,820	-	-	542,000	595,515
Intersystem loans payable (receivable)	137,625	109,950	7,793	(12,006)	(277,338)	33,976	-	-	-
Less-current maturities	(13,091)	(28,200)	(1,403)	(737)	7,968	-		(35,463)	(36,023)
	137,493	294,807	6,390	(5,579)	39,450	33,976	-	506,537	559,492
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	8,008	8,428	-	81,145	7,697	-	(13,052)	92,226	95,682
Net pension liability	13,832	13,962	1,649	20,245	-	-	-	49,688	63,480
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	8,960	-	-	-	-	8,960	8,725
Other liabilities	-	384	-	-	-	-	-	384	873
	31,090	32,024	10,609	101,390	7,697	-	(13,052)	169,758	187,260
TOTAL LIABILITIES	187,655	373,815	19,217	131,117	45,858	48,661	(13,052)	793,271	864,566
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,405	-	-	-	-	-	6,405	6,077
Pensions	2,262	2,283	270	3,310	-	-	-	8,125	1,132
Regulatory liabilities	55	18,891	8	1,326	671	20	-	20,971	22,974
	2,317	27,579	278	4,636	671	20	-	35,501	30,183
TOTAL NET POSITION	182,693	67,911	77,361	464,289	90,739	9,758	-	892,751	787,780
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 372,665	$ 469,305	$ 96,856	$ 600,042	$ 137,268	$ 58,439	$ (13,052)	$ 1,721,523	$ 1,682,529

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

COMBINING SCHEDULE OF CASH FLOWS

For the year ended December 31, 2017, with comparative totals for December 31, 2016

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 99,852	$ 102,050	$ 8,988	$ 317,045	$ 7,755	$ 19,363	$ (185,000)	$ 370,053	$ 355,772
Payments to suppliers	(32,208)	(19,191)	(2,143)	(237,524)	62	(15,529)	185,000	(121,533)	(104,377)
Payments to employees	(26,892)	(24,906)	(3,328)	(34,508)	-	68	-	(89,566)	(84,384)
Insurance proceeds	912	-	-	3,031	-	-	-	3,943	-
Net cash provided by operating activities	41,664	57,953	3,517	48,044	7,817	3,902	-	162,897	167,011
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(10,238)	(30,833)	(655)	(17,988)	-	(5,616)	-	(65,330)	(60,382)
Additions to pooled assets	128	118	12	-	-	(258)	-	-	-
Proceeds from sale of plant	7	28	-	94	-	81	-	210	317
Principal (paid) received on debt & intersystem loans	(20,150)	(30,144)	(1,423)	(1,497)	(13,832)	2,708	-	(64,338)	(34,833)
Interest (paid) received on debt & intersystem loans	(11,389)	(10,191)	(700)	(45)	7,109	-	-	(15,216)	(15,490)
Capital contributions	-	570	-	4,098	-	-	-	4,668	3,275
Other	(3)	(1,932)	(1,155)	2,881	474	54	-	319	(763)
Net cash used in capital and related financing activities	(41,645)	(72,384)	(3,921)	(12,457)	(6,249)	(3,031)	-	(139,687)	(107,876)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	(1,814)	10,561	149	(38,647)	(3,965)	(1,519)	-	(35,235)	(67,229)
Interest on investments	857	2,239	108	2,524	1,645	326	-	7,699	6,398
Long-term receivables	-	-	-	117	-	-	-	117	337
Other, net	1	(489)	-	(145)	(1)	-	-	(634)	1,081
Net cash (used in) provided by investing activities	(956)	12,311	257	(36,151)	(2,321)	(1,193)	-	(28,053)	(59,413)
NET DECREASE IN CASH & CASH EQUIVALENTS	(937)	(2,120)	(147)	(564)	(753)	(322)	-	(4,843)	(278)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	4,792	6,514	613	13,442	6,949	1,854	-	34,164	34,442
CASH & CASH EQUIVALENTS, END OF YEAR	$ 3,855	$ 4,394	$ 466	$ 12,878	$ 6,196	$ 1,532	$ -	$ 29,321	$ 34,164

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

COMBINING SCHEDULE OF CASH FLOWS (CONT.)

For the year ended December 31, 2017, with comparative totals for December 31, 2016

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	$ 26,498	$ 48,109	$ 1,505	$ 36,528	$ 8,379	$ 1,163	$ -	$ 122,182	$ 116,529
Depreciation and amortization	17,299	10,322	1,902	13,932	-	4,079	-	47,534	47,296
(Increase) decrease in operating assets:									
Accounts receivable, net	421	(351)	(7)	4,070	-	10	-	4,143	(4,078)
Materials and supplies	(88)	-	-	(248)	-	3	-	(333)	630
Prepayments	29	23	4	(395)	-	-	-	(339)	54
Other	290	192	-	(1,363)	-	-	-	(881)	(372)
Deferred outflows of resources	1,059	1,079	155	1,564	-	-	-	3,857	(4,924)
Increase (decrease) in operating liabilities:									
Accounts payable	(3,251)	1,327	101	(2,506)	62	(336)	-	(4,603)	9,618
Accrued taxes	29	4	(1)	255	-	26	-	313	110
Accrued vacation and other	1,660	(556)	243	470	-	(1,043)	-	774	914
Unearned wholesale revenue	(497)	(493)	-	(2,556)	(624)	-	-	(4,170)	(102)
Customer deposits	-	-	-	896	-	-	-	896	(3,530)
Net pension liability	(3,750)	(3,842)	(615)	(5,583)	-	-	-	(13,790)	11,664
Deferred inflows of resources	1,965	2,139	230	2,980	-	-	-	7,314	(6,798)
Net cash provided by operating activities	$ 41,664	$ 57,953	$ 3,517	$ 48,044	$ 7,817	$ 3,902	$ -	$ 162,897	$ 167,011
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ 69	$ 2,595	$ 1	$ 450	$ -	$ 325	$ -	$ 3,440	$ 5,040
Capital contributions	-	-	-	65	-	-	-	65	182
Amortization of regulatory assets	-	-	-	(1,595)	-	-	-	(1,595)	(1,218)

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

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BONDHOLDER-FIDUCIARIES

Bond Series	Trustee/Registrar/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
PO Box 1231
Wenatchee, WA 98807
(509) 663-8121

U.S. Bank N.A.
PD-WA-T7CT
1420 Fifth Ave., 7th Floor
Seattle, WA 98101
(206) 344-4682

U.S. Bank Global Corporate Trust Services
111 Fillmore Ave. E
St. Paul, MN 55107
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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Additional information can be found on our website at ***www.chelanpud.org.***

Bond & Disclosure Counsel
Orrick, Herrington & Sutcliffe LLP, Portland, OR

DISTRIBUTION DIVISION

Five Largest Local Wholesale Purchasers and Major Retail Customers 2017 (1)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	324	$ 5,353	1.8%
Stemilt Growers	Agriculture	52	1,023	0.3%
Trout	Agriculture	31	635	0.2%
Keyes Fibre	Packaging	29	555	0.2%
Confluence Health	Healthcare	27	573	0.2%
		463	$ 8,139	2.7%

1. Excludes non firm sales for resale.

DISTRIBUTION DIVISION

Statement of Revenues and Expenses ($000)

Calendar Year	2013	2014	2015	2016	2017
Operating revenues					
Retail	$ 49,099	$ 48,938	$ 48,014	$ 48,447	$ 53,468
Resale (1)	179,604	210,976	188,436	201,134	209,412
Other (2)	25,064	30,943	25,744	27,380	37,513
Total	253,767	290,857	262,194	276,961	300,393
Operating expenses (1)	225,796	277,462	225,526	246,547	265,007
Net operating revenue	27,971	13,395	36,668	30,414	35,386
Other income	907	1,966	969	5,262	6,013
Net revenue (3)	$ 28,878	$ 15,361	$ 37,637	$ 35,676	$ 41,399

1. Includes contractual purchases and nonfirm purchases for resale. In 2015, 2014 Operating Expenses were restated to incorporate new GASB pension accounting requirements.

2. The Distribution Division includes transmission revenue under transmission agreements.

3. Prior to changes in accounting principles, capital contributions and interfund equity transfers.

DISTRIBUTION DIVISION

Energy Requirements, Resources and Power Costs

Calendar Year	2013	2014	2015	2016	2017
Requirements (000 MWh) (1)	8,372	10,155	9,021	9,859	10,096
Resources (000 MWh)					
Rocky Reach System	3,080	3,103	2,824	2,839	2,872
Rock Island System	1,544	1,319	1,450	1,407	1,401
Lake Chelan System	444	426	440	471	461
Other purchases (2)	3,304	5,307	4,307	5,142	5,362
	8,372	10,155	9,021	9,859	10,096
Purchased Power Costs ($000)					
Rocky Reach System	$ 45,858	$ 46,437	$ 47,926	$ 53,812	$ 48,955
Rock Island System	49,592	53,109	50,443	50,679	51,601
Lake Chelan System	11,931	13,270	8,185	8,649	7,909
Other purchases (2)	63,698	106,240	57,475	68,465	85,488
	$ 171,079	$ 219,056	$ 164,029	$ 181,605	$ 193,953
Average cost ($/MWh) (3)	$ 20	$ 22	$ 18	$ 18	$ 19

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	2013	2014	2015	2016	2017
Customers					
Retail:					
Residential	36,402	37,047	37,222	37,708	38,161
Commercial	6,182	6,246	6,290	6,296	6,316
Industrial	31	31	30	31	29
High Density Load	-	-	-	-	19
Irrigation, frost, lighting	5,683	5,673	5,617	5,616	5,600
Interdepartmental	556	560	543	556	555
Total retail customers	48,854	49,557	49,702	50,207	50,680
Resale:	84	85	87	86	86
Total customers	48,938	49,642	49,789	50,293	50,766
Energy Sales (000 MWh)					
Retail:					
Residential	788	782	742	756	881
Commercial	474	482	482	491	499
Industrial	272	252	256	265	239
Irrigation, frost, lighting	42	46	48	43	40
High Density Load	-	-	-	-	68
Interdepartmental	24	23	26	16	21
Total retail sales	1,600	1,585	1,554	1,571	1,748
Resale:					
Alcoa Corp. (1)	59	69	88	-	-
Douglas County PUD	345	363	325	331	324
Other - firm/slice	2,114	1,945	2,155	2,147	2,165
Other - non firm/block/preschedule/real time (2)	4,190	6,224	4,714	6,088	6,046
Total sales for resale	6,708	8,601	7,282	8,566	8,535
Total energy sales	8,308	10,186	8,836	10,137	10,283
Revenue ($000)					
Retail:					
Residential	$ 25,178	$ 25,068	$ 24,021	$ 24,424	$ 27,944
Commercial	16,083	16,391	16,348	16,666	17,004
Industrial	5,490	5,154	5,185	5,366	4,896
Irrigation, frost, lighting	1,651	1,656	1,722	1,529	1,499
High Density Load	-	-	-	-	1,504
Interdepartmental	697	669	738	463	621
Total retail revenue	49,099	48,938	48,014	48,448	53,468
Resale:					
Alcoa Corp. (1)	1,899	2,808	2,207	-	-
Douglas County PUD	4,532	4,980	5,204	5,510	5,353
Other - firm/slice	78,527	76,136	84,262	75,431	78,934
Other - non firm/block/preschedule/real time (2)	94,646	127,052	96,763	113,995	118,431
Total resale revenue	179,604	210,976	188,436	194,936	202,718
Other revenue (3)	25,064	30,943	25,744	27,380	37,513
Total revenue	$ 253,767	$ 290,857	$ 262,194	$ 270,764	$ 293,699

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	2013	2014	2015	2016	2017
Rocky Reach System					
Operating expenses (1)	$ 42,476	$ 44,163	$ 49,728	$ 65,363	$ 56,801
Depreciation and amortization	16,652	16,512	16,634	16,951	17,299
Interest expense	15,194	14,209	13,336	12,434	11,377
Other (revenue) expense (2)	111	(960)	(440)	(665)	(1,344)
Total power cost (3)	$ 74,433	$ 73,924	$ 79,258	$ 94,083	$ 84,133
Net power delivered (000 MWh)	6,219	6,216	5,748	5,833	5,862
Cost in $/MWh	$ 12	$ 12	$ 14	$ 16	$ 14
Plant factor (4)	55%	55%	50%	51%	51%
Availability factor	79%	89%	79%	73%	79%
Average river flow (000 CFS) (5)	117	113	103	107	131
Rock Island System					
Operating expenses (1)	$ 35,834	$ 42,783	$ 39,057	$ 42,909	$ 44,426
Depreciation and amortization	11,180	10,904	10,975	11,297	10,322
Interest expense	26,260	25,388	24,457	23,520	22,610
Other (revenue) expense (2)	1,174	(320)	(772)	(426)	(815)
Total power cost (3)	$ 74,448	$ 78,755	$ 73,717	$ 77,300	$ 76,543
Net power delivered (000 MWh)(6)	3,077	2,648	2,932	2,853	2,820
Cost in $/MWh	$ 24	$ 30	$ 25	$ 27	$ 27
Plant factor (4)	56%	48%	53%	52%	51%
Availability factor	90%	82%	81%	62%	59%
Lake Chelan System					
Operating expenses (1)	$ 4,737	$ 5,709	$ 5,134	$ 6,018	$ 5,587
Depreciation and amortization	1,856	1,864	1,889	1,887	1,902
Interest expense	3,929	3,790	836	770	700
Other (revenue) expense (2)	39	(37)	(3)	(35)	(48)
Total power cost (3)	$ 10,561	$ 11,326	$ 7,856	$ 8,640	$ 8,141
Net power delivered (000 MWh)	444	426	440	471	461
Cost in $/MWh	$ 24	$ 27	$ 18	$ 18	$ 18
Plant factor (4)	86%	82%	85%	91%	89%
Availability factor	100%	90%	89%	92%	97%
Combined Hydro Cost in $/MWh	$ 16	$ 18	$ 18	$ 20	$ 18

1. *In 2015, year 2014 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	2013	2014	2015	2016	2017
Operating revenues (1)					
Retail	$ 54,447	$ 54,782	$ 54,009	$ 54,653	$ 60,088
Resale	215,373	247,481	219,650	228,371	236,087
Other	42,542	49,355	44,009	45,728	58,020
Total	312,362	351,618	317,668	328,752	354,195
Less: Operating expenses					
Purchased power and water	(171,389)	(219,381)	(164,338)	(181,905)	(194,261)
Other operation & maintenance	(65,601)	(72,148)	(74,866)	(79,770)	(85,434)
Taxes	(5,686)	(5,742)	(5,388)	(5,802)	(7,011)
Depreciation & amortization	(20,542)	(20,992)	(19,700)	(19,048)	(19,912)
Operating income	49,144	33,355	53,376	42,227	47,577
Adjustments					
Add back depreciation & amortization	20,542	20,992	19,700	19,048	19,912
Add investment income	1,943	2,383	3,051	3,651	4,746
Add principal and interest payments from Rocky Reach & Rock Island	48,683	49,720	48,520	46,650	45,196
Total adjustments	71,168	73,095	71,271	69,349	69,854
Net revenues	120,312	106,450	124,647	111,576	117,431
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 120,312	$ 106,450	$ 124,647	$ 111,576	$ 117,431
Available funds (2)	$ 233,294	$ 235,492	$ 202,221	$ 272,163	$ 313,579
Annual debt service	$ 41,668	$ 39,745	$ 42,751	$ 28,280	$ 28,236
Debt service coverage					
With available funds (required 1.25x)	8.49	8.60	7.65	13.57	15.26
Without available funds (required 1.00x)	2.89	2.68	2.92	3.95	4.16

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, 2017 ($000)

Date of Bonds	Final Maturity Date	Series of	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	$ 27,630	$ 31,685	$ 61,195	$ 972
8/11/2009	7/1/2019	2009C	6,545	5,015	5,015	1,530	243
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	36,035	36,035	71,465	5,244
6/1/2011	7/1/2026	2011B	72,220	24,210	24,210	48,010	3,377
11/9/2011	7/1/2026	2011C	164,425	38,510	69,360	95,065	5,351
Total Consolidated System			470,585	131,400	166,305	304,280	16,987
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	189,875	189,875	206,677	32,024
8/11/2009	7/1/2029	2009A	14,000	3,030	7,645	6,355	608
Total Rock Island System			149,944	192,905	197,520	213,032	32,632
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	3,180	3,180	12,715	764
Total Rocky Reach System			15,895	3,180	3,180	12,715	764
Grand Total			$ 636,424	$ 327,485	$ 367,005	$ 530,027	$ 50,383

1. *Amount of serial bonds matured as of December 31, 2017 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, 2017 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, 2017 ($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 145,186	$ (7,561)	$ 137,625
Rock Island System	119,271	(9,321)	109,950
Consolidated System (3)	39,823	(10,059)	29,764
	$ 304,280	$ (26,941)	$ 277,339

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, 2017

	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service			Rocky	Rock	Total Loan
Year	Principal (2)	Interest (3)	Total	Reach	Island	Payments
2018	$ 11,550,000	$ 12,180,757	$ 23,730,757	$ 22,110,177	$ 15,500,068	$ 37,610,245
2019	11,872,400	11,303,731	23,176,131	19,884,836	14,849,247	34,734,083
2020	29,405,000	10,095,651	39,500,651	18,682,912	14,912,410	33,595,322
2021	26,650,000	8,926,324	35,576,324	16,995,034	14,174,292	31,169,326
2022	27,820,000	7,856,907	35,676,907	16,995,986	13,992,722	30,988,708
2023	29,085,000	6,697,781	35,782,781	16,928,190	13,986,388	30,914,578
2024	30,470,000	5,426,977	35,896,977	16,872,091	13,514,012	30,386,103
2025	33,965,000	4,076,229	38,041,229	14,732,661	13,060,229	27,792,890
2026	21,613,353	2,564,859	24,178,212	13,050,225	13,000,617	26,050,842
2027	1,970,000	926,188	2,896,188	11,627,056	12,999,821	24,626,877
2028	2,865,000	873,473	3,738,473	10,208,263	13,617,350	23,825,613
2029	1,290,000	818,534	2,108,534	8,878,935	9,381,242	18,260,177
2030	1,345,000	761,148	2,106,148	7,463,981	10,863,167	18,327,148
2031	1,405,000	699,066	2,104,066	6,054,618	10,348,046	16,402,664
2032	45,512,775	634,213	46,146,988	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	$ 287,293,468	$ 76,207,678	$ 363,501,146	$ 218,222,231	$ 246,485,685	$ 464,707,916

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 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 (BAB) direct payment Federal subsidy assumed at approximately 33 percent.*

CONSOLIDATED SYSTEM

Unrestricted and Restricted Fund Balances as of December 31, 2017 ($000)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 43,119	$ 891	$ 6,442	$ 11,629	$ 62,081
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	91,437	-	-	-	91,437
Other unrestricted funds (5)	25,293	6,796	83,465	6,407	121,961
Total unrestricted funds	209,849	7,687	89,907	18,036	325,479
Restricted funds (6)	3,267	1	19,287	7,323	29,878
Total fund balances	$ 213,116	$ 7,688	$ 109,194	$ 25,359	$ 355,357

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	2013	2014	2015	2016	2017
Original system net generation	573	695	481	491	463
Second powerhouse net generation	2,105	2,095	2,272	2,190	2,194
Total generation	2,678	2,790	2,753	2,681	2,657
Plus:					
Wanapum encroachment (1)	662	191	506	511	464
Net interchange	80	(27)	23	17	39
System losses by contract	(4)	(9)	(9)	(15)	(17)
Less:					
Canadian Treaty Power (2)	(160)	(154)	(160)	(159)	(158)
Rocky Reach Encroachment (3)	(179)	(143)	(181)	(183)	(165)
Total net power delivered (4)	3,077	2,648	2,932	2,852	2,820
Percentage allocations (5)					
Power Purchasers	51%	51%	51%	51%	51%
District	49%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,536	1,331	1,482	1,445	1,419
District	1,541	1,317	1,450	1,407	1,401
Total sales (4)	3,077	2,648	2,932	2,852	2,820
Net peaking capability	629	629	629	629	629
Availability factor	90%	82%	81%	62%	59%
Plant factor (6)	56%	48%	53%	52%	51%

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	2013	2014	2015	2016	2017
Rock Island System	$ 24	$ 30	$ 25	$ 27	$ 27
Bonneville Power (1)	$ 38	$ 38	$ 40	$ 40	$ 40

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	2013	2014	2015	2016	2017
Rock Island System	$ 3,914	$ 5,663	$ 11,320	$ 33,708	$ 33,001
Projected Calendar Year (1)	**2018**	**2019**	**2020**	**2021**	**2022**
Rock Island System	$ 83,398	$ 43,755	$ 19,663	$ 45,979	$ 43,121

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	2013	2014	2015	2016	2017
Operating revenues:					
Power Purchasers	$ 50,314	$ 53,975	$ 51,201	$ 51,448	$ 52,391
District	48,315	51,831	49,166	49,402	50,324
Total revenues from sales	98,629	105,806	100,367	100,850	102,715
Other operating revenues	134	200	168	158	143
Total operating revenues	98,763	106,006	100,535	101,008	102,858
Total operating expenses (1)	47,013	53,687	50,032	54,207	54,748
Net operating revenues	51,750	52,319	50,503	46,801	48,110
Other expense	(28,092)	(25,823)	(24,649)	(23,930)	(23,036)
Net revenues	23,658	26,496	25,854	22,871	25,074
Add back:					
Depreciation	11,180	10,904	10,975	11,297	10,322
Interest expense	26,260	25,388	24,457	23,520	22,610
Amortization of deferred debt costs	127	271	270	290	265
Other (2)	1,497	134	165	337	395
Deduct:					
Amortization of deferred power sales revenue	(633)	(641)	(651)	(655)	(669)
Cash available for debt service	62,089	62,552	61,070	57,660	57,997
Annual debt service:					
Rock Island Bonds	23,646	23,022	23,422	23,421	23,420
Intersystem loans	18,234	19,186	17,668	16,246	15,981
Total debt service requirement	41,880	42,208	41,090	39,667	39,401
Cash available after payment of all debt service	$ 20,209	$ 20,344	$ 19,980	$ 17,993	$ 18,596
Coverage of total debt service	1.48	1.48	1.49	1.45	1.47

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, 2017

Twelve Months Ending Dec. 31	Bonds		Subordinate Lien Bonds		Intersystem Loans (1)		
	Estimated Debt Service	Estimated Principal Retirements (2)(3)	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	Total Estimated Debt Service
2018	$ 22,685,000	$ 22,685,000	$ 287,556	$ -	$ 15,500,068	$ 6,025,052	$ 38,472,624
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	12,571,000	12,571,000 (4)	147,994	111,994 (4)	9,381,242	4,861,550	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	$ 262,106,000	$ 262,106,000	$ 7,970,886	$ 5,746,994	$ 246,485,685	$ 140,104,118	$ 516,562,571

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	2013	2014	2015	2016	2017
Operating revenue					
Wholesale sales (1)	$ 98,629	$ 105,806	$ 100,367	$ 100,850	$ 102,715
Other operating revenues	134	200	168	158	143
Total operating revenues	98,763	106,006	100,535	101,008	102,858
Operating expenses					
Operations & maintenance	(35,156)	(42,462)	(38,421)	(42,273)	(43,805)
Taxes	(678)	(576)	(637)	(637)	(621)
Depreciation and amortization	(11,180)	(10,904)	(10,975)	(11,297)	(10,322)
Total operating expense	(47,014)	(53,942)	(50,033)	(54,207)	(54,748)
Operating income	51,749	52,064	50,502	46,801	48,110
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(18,234)	(19,186)	(17,668)	(16,246)	(15,981)
Add back depreciation and amortization	11,180	10,904	10,975	11,297	10,322
Add investment income	1,524	1,767	2,079	2,370	2,297
Total adjustments	(5,530)	(6,515)	(4,614)	(2,579)	(3,362)
Net revenues	$ 46,219	$ 45,549	$ 45,888	$ 44,222	$ 44,748
Annual debt service					
Bonds	$ 22,685	$ 22,685	$ 22,685	$ 22,685	$ 22,685
Subordinate Bonds	961	337	737	736	735
Total debt service	$ 23,646	$ 23,022	$ 23,422	$ 23,421	$ 23,420
Debt service coverage					
Without available funds (required 1.00x)	1.95	1.98	1.96	1.89	1.91

1. *Payments from Power Purchasers 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 Consolidated System bond proceeds.*

ROCKY REACH SYSTEM

Debt Service Requirements as of December 31, 2017

	Bonds		Intersystem Loans (1)		
Twelve Months Ending Dec. 31	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	Total Estimated Debt Service
2018	$ 1,125,750	$ 490,000	$ 22,110,177	$ 12,601,324	$ 23,235,927
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	$ 18,411,550	$ 11,950,550	$ 218,222,231	$145,186,052	$ 236,633,781

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	2013	2014	2015	2016	2017
Operating revenue					
Wholesale sales (1)	$ 91,361	$ 92,554	$ 96,575	$ 109,610	$ 99,684
Other operating revenues	231	561	208	204	914
Total operating revenues	91,592	93,115	96,783	109,814	100,598
Operating expenses					
Operations & maintenance	(41,140)	(43,080)	(48,493)	(64,112)	(55,541)
Taxes	(1,336)	(1,335)	(1,235)	(1,251)	(1,260)
Depreciation and amortization	(16,652)	(16,512)	(16,634)	(16,951)	(17,299)
Total operating expenses	(59,128)	(60,927)	(66,362)	(82,314)	(74,100)
Operating income	32,464	32,188	30,421	27,500	26,498
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(30,450)	(30,535)	(30,852)	(30,404)	(29,215)
Add back depreciation and amortization	16,652	16,512	16,634	16,951	17,299
Add investment income	228	395	555	782	915
Total adjustments	(13,570)	(13,628)	(13,663)	(12,671)	(11,001)
Net revenues	$ 18,894	$ 18,560	$ 16,758	$ 14,829	$ 15,497
Annual debt service	$ 2,640	$ 2,615	$ 1,128	$ 1,127	$ 1,129
Debt service coverage					
Without available funds (required 1.00x)	7.16	7.10	14.86	13.16	13.73

1. *Payments from Power Purchasers 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 Consolidated 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 I, 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 10885 NE 4th Street, Suite 1200, 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, 2017.

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, 2017, PSE had approximately 1,142,000 electric customers, and approximately 825,600 natural gas customers.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Puget Energy, are incorporated by reference herein: 1. The Company's Form 10-K for the year ended December 31, 2017 filed March 1, 2018 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 nearly 130 years to the world-changing discovery that made aluminum an affordable and vital part of modern life. Since inventing 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. In March 2017, the aluminum smelting, cast products and rolled products businesses, along with the majority of the energy segment assets, were combined into a new Aluminum business unit. As a result, Alcoa's operations consisted of three reportable segments for 2017: Bauxite, Alumina, and Aluminum. Segment information for all prior periods presented was revised to reflect the new segment structure, as well as the new measure of profit and loss.

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 http://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.

On September 29, 2016, the ParentCo Board of Directors approved the distribution of 80.1% of Alcoa Corporation's issued and outstanding shares of common stock on the basis of one share of Alcoa Corporation common stock for every three shares of ParentCo common stock held as of the close of business on October 20, 2016, the record date for the distribution (the "Distribution"). In 2017, ParentCo divested itself of its entire interest in Alcoa Corporation. ParentCo stockholders received cash in lieu of any fractional shares of Alcoa Corporation common stock that they would have received after application of the distribution ratio.

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, 2017 filed on February 23, 2018 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.

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P.U.D.
CHELAN COUNTY
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