POWERING **AHEAD**

CHELAN COUNTY

CHELAN COUNTY
PUBLIC UTILITY DISTRICT

2021 ANNUAL REPORT

Photos by Chelan County PUD Communications Dept.

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 49,901 retail customers in the county. Chelan PUD also provides water, sewer and wholesale telecommunications services.

ABOUT THIS REPORT

The financial report is designed to provide a general overview of Chelan PUD's finances and to demonstrate the PUD's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to Chelan PUD at P.O. Box 1231, Wenatchee, WA 98807 or via email to *ContactUs@chelanpud.org*.

Note: *The statements and information on pages 1-14 of the 2021 Annual Report are provided for general information only. They are not intended, and should not be relied upon, for making investment decisions by current or prospective investors. Official statements can be found at **chelanpud.org**.*

Above: Crews at Rocky Reach prepare to work on one of the turbines.

Inset: A contractor coats transmission lines with fire-retardant paint in spring 2021.

Right top: Sunrise at Rock Island Dam.

Right: Chelan PUD rebuilt a high-voltage transmission line in fire-resistant steel for better reliability in the Chelan Valley.

Cover photo by Jordan Jones

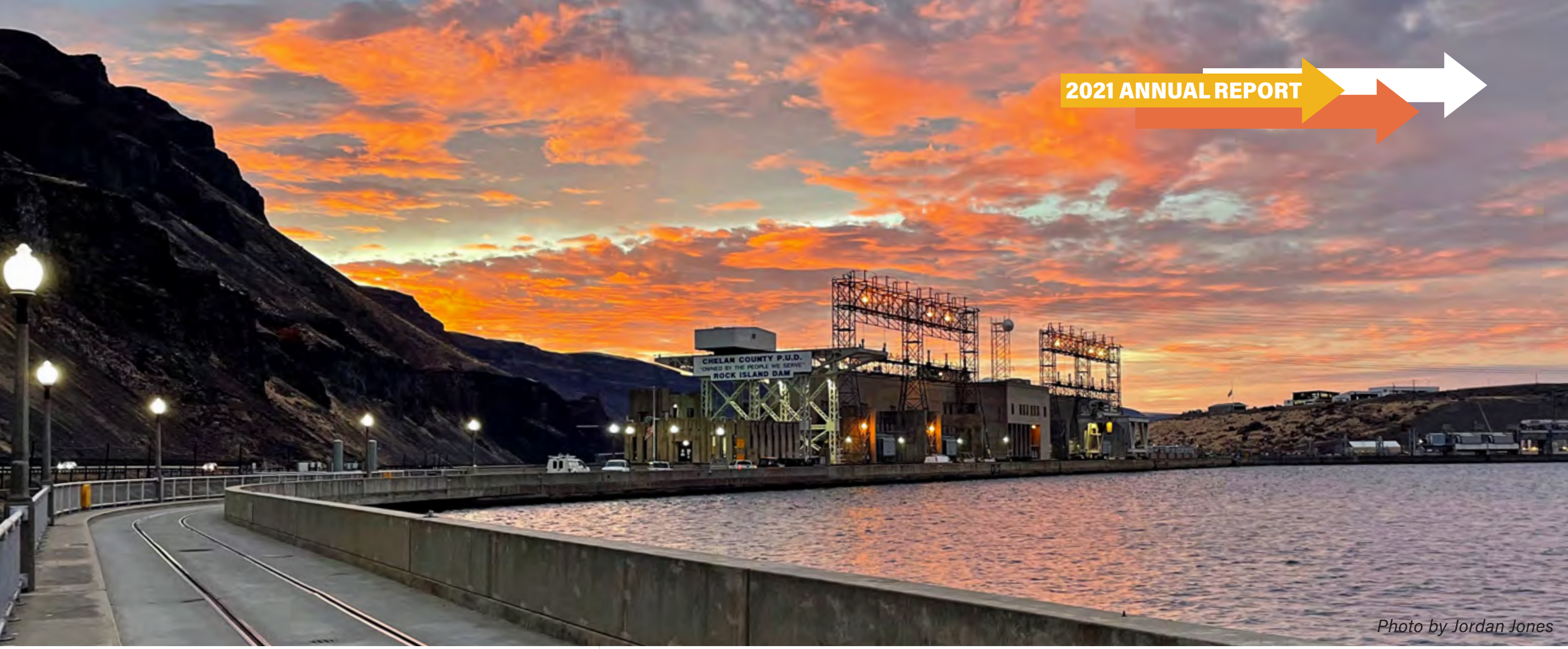


Photo by Jordan Jones

MISSION

To enhance the quality of life in Chelan County by providing sustainable, reliable utility services.

VISION/CHALLENGE

In a rapidly changing utility environment, we will provide:
The best value for the most people for the longest time.

OUR VALUES

SAFETY
Protect public and employee health and safety

STEWARDSHIP
Acting on behalf of customer-owners, protecting public resources entrusted to us

TRUSTWORTHINESS
Competence, integrity, respect, collaboration

OPERATIONAL EXCELLENCE
High-quality, innovative work execution through supporting personal accountability

TABLE OF CONTENTS

A NEW GENERATION POWERS AHEAD

2022 General Manager Kirk Hudson

When Chelan PUD was created by a vote of the people in 1936, they envisioned a utility that would provide reliable, low-cost electricity. By building and procuring two dams on the Columbia River and one at Lake Chelan, community leaders ensured that the future of energy remained under local control for the benefit of future generations.

As the new general manager, I am proud to lead the generation of PUD employees who power ahead with that legacy. This annual report highlights the progress we've made in 2021 to provide the best value for the most people for the longest time.

In 2021, Chelan PUD met its financial targets and delivered on the priorities of our customers as outlined in the 2020-2024 strategic plan. That plan is based on four priorities:

1. **Investing in assets and people.** Chelan PUD invested $165 million in capital projects. The most visible was the Service Center at Olds Station, but the biggest undertaking was at Rock Island Dam, where we are modernizing cranes and generating units in an effort to increase hydropower capability to 89%. With our generating units ready in top condition, we will have more flexibility and more capacity to provide carbon-free, renewable hydropower. The investments of today will position Chelan PUD to meet the needs of a transforming energy grid well into the future.
2. **Sustain excellent financial resiliency.** Chelan PUD wrapped up 2021 with a bottom line of $137 million, about $84 million ahead of budget. That was driven by lower expenses and higher revenues, which include two unbudgeted items — a regulatory adjustment and retained proceeds from a long-term contract. We also secured two new slice contracts, and a 20-year, cost-plus contract. Those energy contracts will help us sustain our low residential rates, which are among the lowest in the nation.
3. **Enhance the quality of life in Chelan County with programs that distribute the benefits of public power.** We continue expanding fiber internet with a goal of 85% coverage across Chelan County by the end of 2026. The benefits of public power also include investment in our parks system, such as new amenities at Riverfront Park in Wenatchee.
4. **Engage in countywide growth planning.** Chelan County is one of the fastest growing counties in the state. Chelan PUD finished the Hawley Street substation with plans to build several more substations around the county to ensure reliability, expand capacity, and support economic development.

"...Chelan PUD met its financial targets and delivered on the priorities of our customers..."

All this to say, big things are happening at Chelan County PUD. The assets we're building now will continue serving Chelan County customer-owners for the next 50 years and beyond. We look forward to continuing to serve our customer-owners as we power ahead together.

LEADERSHIP

ENHANCING THE QUALITY OF LIFE IN CHELAN COUNTY

As Chelan PUD commissioners, our decisions focus on how we're enhancing the quality of life in our community. Our Chelan County residents elect the Board of Commissioners to govern the PUD. We welcome ideas and comments from customer-owners and participation at board meetings, held the first and third Mondays of each month. Customers can email us at *contactus@chelanpud.org*.

From left: Dennis Bolz; Randy Smith; Garry Arseneault; Ann Congdon; and Steve McKenna

Steve Wright

FAREWELL TO FORMER GENERAL MANAGER STEVE WRIGHT

In 2021, Steve Wright retired as general manager from Chelan County PUD after eight years of service. Wright has earned widespread recognition as one of the country's foremost experts within the energy industry and public power. Prior to coming to the PUD in 2013, he worked for the Bonneville Power Administration (BPA) for 32 years, the final 12 as Administrator/CEO.

At Chelan PUD, Wright managed the development of two 5-year strategic plans, which engaged thousands of customer-owners, employees and businesses in an open dialogue to build consensus around public power issues. The plans have guided decisions on issues such as rate design, economic development, hydropower operations and public power benefits. Chelan PUD's strategic planning process serves as a model for other public power utilities.

Under Wright's tenure, Chelan PUD reduced its debt ratio from 59% to 23% today. The PUD's bond ratings are exceptionally strong, and the PUD remains among the most highly-rated utilities in the U.S.

Thank you, Steve Wright, for your service and many contributions to Chelan County.

2021 AT A GLANCE

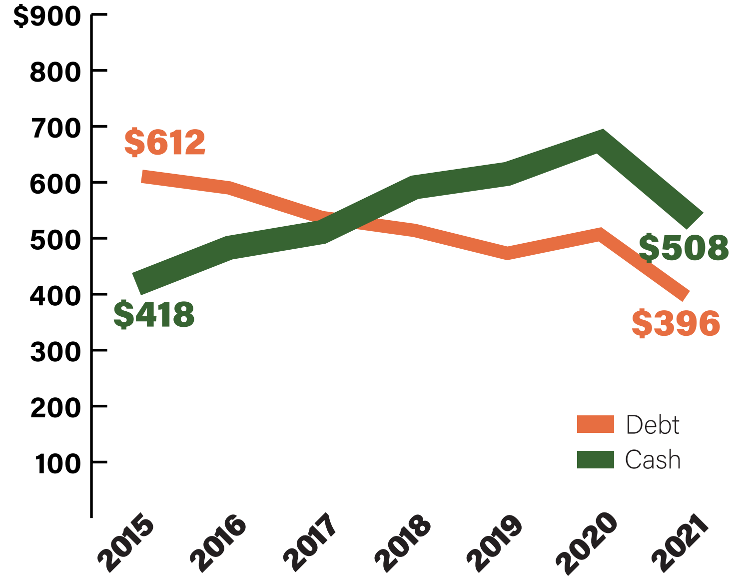
Chelan PUD's operating results were better than budget, as it continues to demonstrate strong financial performance on behalf of its customer-owners.

Its key financial **targets are all on track**, and the utility maintained a focus on investments in modernizing hydropower units and the electrical system.

In 2021, the PUD paid for many capital endeavors with cash. Prudent financial planning contributed to a **positive bottom line of $137 million**.

Cash & Debt Balances

(amounts in millions)



Chelan PUD continues to hold more cash than debt and is among the highest-rated customer-owned utilities in the nation.

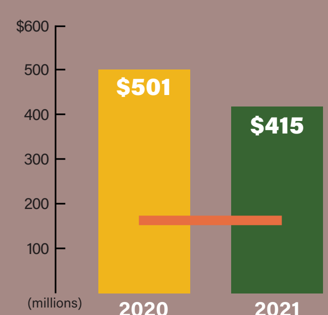
WE MEASURE THE DISTRICT'S FINANCIAL STABILITY IN FOUR WAYS.

CHELAN PUD EXCEEDED TARGETS FOR ALL FOUR IN 2021.

FINANCIAL LIQUIDITY

Target: Minimum of $175 million

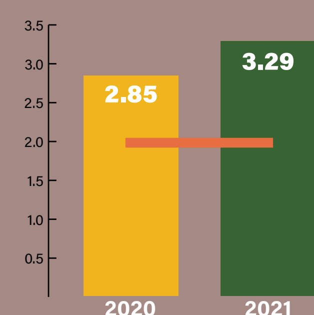
Represents cash reserves to cover risks and provide additional financial stability



DEBT SERVICE COVERAGE

Target: Greater than 2.0

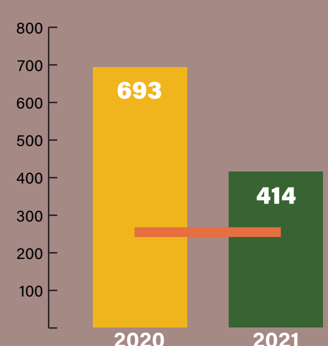
Demonstrates the ability to meet debt obligations even under unusual conditions



DAYS CASH ON HAND

Target: Greater than 250 days

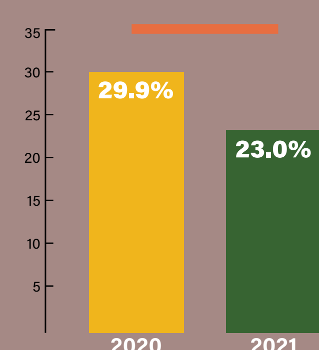
Reflects the days of unrestricted cash relative to expenses and demonstrates financial flexibility



DEBT RATIO

Target: Less than 35%

Reflects the percentage of utility assets financed by debt



Target line

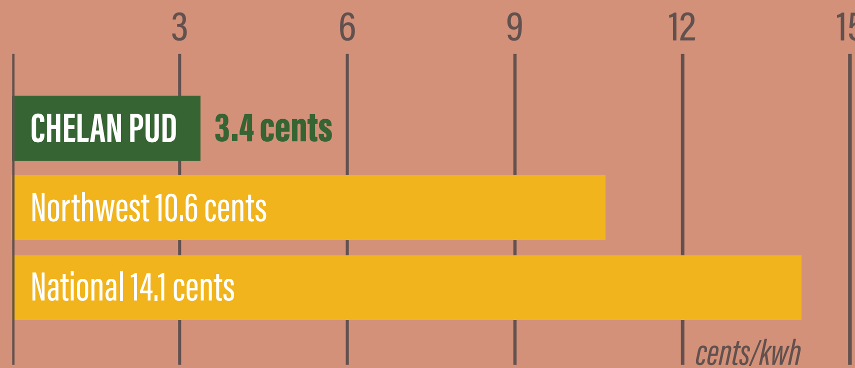
BOND RATINGS

Fitch Ratings .... **AA+**
Standard & Poor's .... **AA+**
Moody's Investors Service..... **Aa3**

As of Dec. 31, 2021

3.4¢

Chelan PUD average residential rate per kilowatt hour in 2021



Electric system reliability

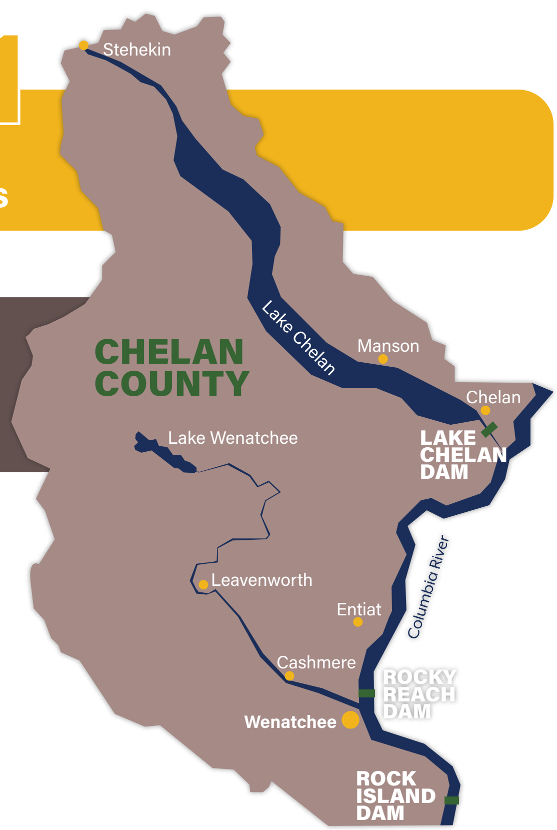
Target is **99.98%**

2021
99.98%
ASAI
Average System Availabilty Index

49,901
Number of retail electric customers

20,159
Number of fiber end-user connections

Number of water/wastewater customers
6,983



1,880
miles of distribution lines

325
miles of transmission lines

HIGHLIGHTS

WHAT IS ESG?

An increasing percentage of investors are considering **environmental**, **social** and **governance** (E S G) **factors** when evaluating, selecting, and monitoring their municipal bond investments. In the next few pages, look for these symbols (ESG in three color-coded circles) to learn more about ESG issues that impact the PUD.

HRI membership goes international

G The Hydropower Research Institute (HRI) **gained a valuable partner** — Canadian utility Ontario Power Generation — in its mission to drive the digital transformation of hydropower. HRI has grown into a data-sharing collective that represents nearly half the United States' hydroelectric capacity, plus a third of Ontario. Founded as a nonprofit in 2018 by Chelan PUD and Southern Company, HRI provides a platform for both sharing data and exchanging ideas, analysis, and observations. By leveraging data and cutting-edge technology, **hydropower utilities can reduce downtime, lower costs, and improve reliability**.

New long-term and slice contracts with Avista, PSE

G In the first quarter of 2021, Chelan **PUD finalized two fixed-price slice contracts** that supply Puget Sound Energy and Avista with 5% each of future output from the PUD's Rock Island and Rocky Reach hydropower projects.

In December, Avista and the PUD entered into a **long-term, cost-plus contract** that provides Avista with 5% of the output from the PUD's Rock Island and Rocky Reach hydropower projects from 2026 through 2030; it increases to 10% of the output from these projects in 2031-2045.

Chelan PUD supports COVID-19 vaccination effort

S Town Toyota Center in Wenatchee was designated as one of four mass vaccination sites in Washington state. The PUD supported the effort by **providing communication equipment, mobile power for vaccine refrigeration, snow removal, and use of a staging area**/parking lot at Walla Walla Point Park.

Photo by Chelan County PUD Communications Dept.

New long-term energy marketing strategy

G Chelan PUD revised its long-term energy marketing strategy in a way that will **support residential and economic growth in Chelan County**, while also allowing the PUD to capitalize on favorable market conditions.

Chelan PUD offers a mix of shorter term market-based and longer term cost-based products. Both types of contracts are based on selling a slice of Chelan's hydropower output, which reduces the risk of variable output from hydropower production. The mix is roughly calculated as 40-50% wholesale cost-plus, long-term slice contracts, 20-30% market-based 5-10 year slice contracts, and 20-30% local load.

The PUD also prepared a **new long-term, cost-plus template**, which will serve as a starting point for negotiations with potential buyers as long-term contracts with Alcoa and Puget Sound Energy expire in 2028 and 2031.

The contracts are based on the cost of production, plus an adder for the value of hydropower as the foundation of a clean energy portfolio. This is important for potential energy buyers as they prepare for major regulatory changes regarding carbon-free energy and resource adequacy.

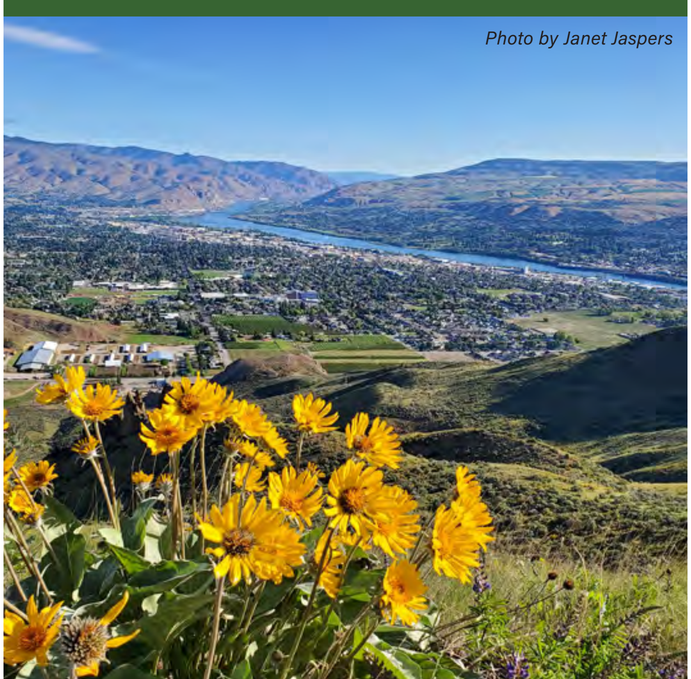


Photo by Janet Jaspers

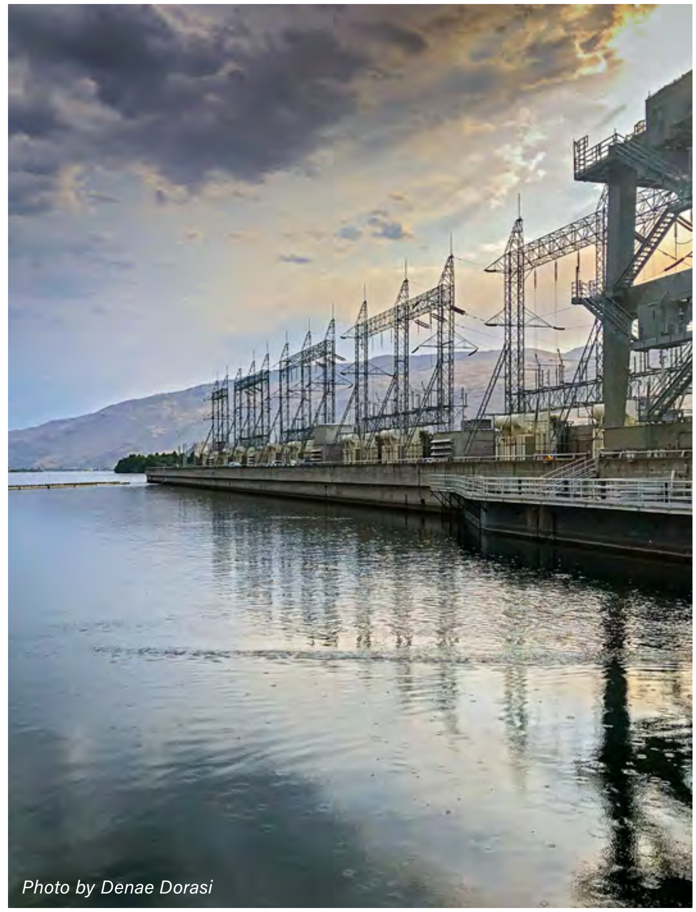


Photo by Denae Dorasi

Strong financial position, despite lower water year

E A dry spring and hot June resulted in drought conditions along the West Coast. The water supply forecast for Grand Coulee — the largest reservoir upriver of Chelan County — shrank from more than 100% in February to 87% of average by June. The PUD responded with **careful management of its hydro projects to support salmon runs, recreation, and doing its part to stabilize the West Coast energy grid**. While there was less energy produced due to lower streamflow, the financial impact was offset by stronger market prices.

INVESTING IN ASSETS

Build to last: GE, Chelan PUD team up to modernize Rock Island turbines

E

Chelan PUD and GE Renewable Energy reached an agreement designed to **achieve a higher standard of quality and innovation for the modernization at Rock Island Powerhouse II**.

The 1970s-era turbines will be rebuilt one by one with expected completion of all eight in 2031 at an estimated cost of $456 million. The goal is to **achieve and maintain 89% hydropower capability**.

To ensure long-term value and quality, GE and Chelan PUD negotiated an extended correction period for 10 years, significantly exceeding the standard two-year warranty for hydroelectric turbines. The agreement was an innovative step forward in helping the hydropower industry **secure longer-term commitments and quality control for the best value** over the longest time.

Fiber acceleration

S

PUD crews made progress installing aerial and underground fiber along Chumstick Highway and in Manson. Both areas should have some broadband fiber available in 2022. Crews also connected small pockets within established areas that didn't have access to broadband fiber.

The PUD is **on track to meet its goal to provide 85% coverage of Chelan County by 2026**, including about 1,200 homes that will receive access earlier than originally planned, thanks to support from the PUD's Public Power Benefit program.

Photo by Kristin Lodge

Rocky Reach Discovery Center re-opens

S

The Rocky Reach Discovery Center **welcomed back visitors** in August after a two-year transformation. The renovations — the visitor center's first since the building opened in the 1960s — created about **30% more display space** in the same footprint.

Four floors of **all-new, interactive experiences** allowed visitors to look a salmon in the eye with expanded fish windows, steer a steamship through treacherous rapids, crank a turbine to make electricity, and play augmented reality games on a mobile device with free Wi-Fi.

New substation finished, more in the works

S

The PUD energized the Hawley Street Substation in summer 2021. The utility also made substantial progress on the new Ohme Substation in North Wenatchee, which is expected to be energized in spring 2022.

Several additional substations are planned for the next few years, including Bavarian Substation in Leavenworth and North Shore Substation near Chelan. These new substations **enhance reliability for customers, provide capacity for growth, and support planned economic development**.

Steel frames raised, interior work begins on Service Center campus

The community watched in anticipation as cranes and crews framed several of the buildings planned for Chelan PUD's 19-acre Service Center campus at Olds Station. The consolidated operations center **will allow Chelan PUD to provide faster response, lower overhead costs, and better access and service** for customers over the next 50-100 years. The grand opening is slated for 2023.


Photo by Chelan County PUD Communications Dept.

Photo by Chelan County PUD Communications Dept.

PUD celebrates new Rock Island facilities

In June, the PUD dedicated four new buildings at its Rock Island Dam, which support hydro crews, engineers and a broad range of work at the hydropower plant. They were designed to be **energy-efficient, promote operational excellence and ensure safe and reliable power production** for the next 50 years and beyond. The facilities support one of the utilities' strategic priorities of investing in people and assets on behalf of its customer-owners.

Clean renewable hydropower

ROCKY REACH DAM

- **5.8 million megawatt hours generated**
- **11 generators**
- **1,300 megawatt capacity**

ROCK ISLAND DAM

- **2.4 million megawatt hours generated**
- **2 powerhouses with 18 generators** (plus 1,000 kW house unit)
- **629 megawatt capacity**

LAKE CHELAN DAM

- **0.4 million megawatt hours generated**
- **2 generators**
- **59 megawatt capacity**

Chelan PUD works to lower fire risk, protect communities

E S G Chelan PUD took action on several fronts to **lower fire risk** and protect some of its most vulnerable communities from wildfire.

In the Chelan Valley, the utility rebuilt a high-voltage transmission line in fire-resistant steel, which will serve about 3,500 homes. The $2.7 million project was **finished on time, under budget and with no outages**.

For several years, crews have applied fire-resistant paint and cleared brush around powerlines in high-risk areas. Those efforts paid off as the Red Apple Fire burned in the Sunnyslope neighborhood. Quick response from firefighters and fire-hardening measures **helped preserve powerlines** and maintained reliability.

The PUD also developed **one of the state's first proactive outage plans** — called fire safety outage management (FSOM). It's designed to prevent utility infrastructure from causing a fire during extreme fire weather. Chelan PUD launched the FSOM program in Lake Wenatchee and Plain, the highest-risk area in the district.

Chelan PUD shifts vegetation management into high gear

E S G In 2021, Chelan PUD more than doubled its vegetation management budget from $1.5 million to $3.5 million to **accomplish the work required by a high vegetation management standard** adopted in 2020. The plan calls for a four-year pruning cycle for all distribution lines, interim pruning that targets fast-growing species and beetle-killed trees, and annual inspections for all high fire danger circuits. In 2021, **Chelan PUD removed about 5,000 hazard trees** — a 3,500-tree increase over 2020, and a 4,300-tree increase compared with 5 years ago.

Preserving our riverbanks

E Chelan PUD **preserved thousands of feet of riverbank and improved native habitat** along the Columbia River at three parks: Kirby Billingsley Hydropower Park, Beebe Bridge Park and Coyote Dunes, a natural preserve area south of Odabashian Bridge.

Photo by Chelan County PUD Communications Dept.

Salmon survival surpasses goal at Rock Island

E **More than 94% of young Chinook salmon last spring passed safely** through Rock Island Hydropower Project on their way to the ocean.

The 10-year study tracked the yearling spring Chinook from just below Rocky Reach Hydropower Project, through Rock Island reservoir and dam, to 1,000 feet below the dam. The goal was to measure at least 93% survival. The final result was 94.45%.

Helping customers in need

S As the pandemic persisted, Chelan PUD **helped hundreds of customers catch up on overdue utility bills** with both tried-and-true assistance programs and creativity. Collectively, past-due residential balances shrank from over $190,000 to $95,000 by December 2021.

PUD Communications and Customer Relations staff doubled down on **efforts to reach customers and offer support**, including payment plans, energy conservation tips and financial assistance. **PUD commissioners also designated** more than $40,000 in Public Power Benefit funds for the Helping Hand program.

Chelan PUD developed a plan to expand energy conservation programs to focus on energy equity, specifically for households that spend more than 6% of their income on power bills. The PUD plans to reach out to selected customer segments with a marketing campaign in 2022 that is culturally, linguistically and channel appropriate.

Many hands built Riverfront Park master plan

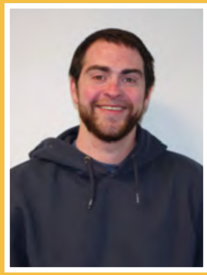
S Chelan PUD and the City of Wenatchee unveiled a 15-year master plan for Riverfront Park that envisions 14 projects in three phases, including a **splash pad, picnic pavilion and safety improvements to the Apple Capital Loop Trail**. The plan was based on extensive community outreach, as more than 700 people submitted their comments and ideas.

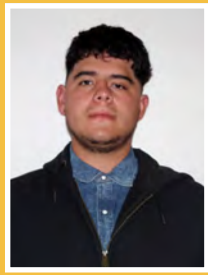
ACCOLADES

Chelan PUD fleet nationally ranked

The National Association of Fleet Administrators (NAFA) announced Chelan PUD's fleet ranked 75th in the top 100 fleets in the Americas. The trade organization tracks more than 38,000 public fleets. This is the fifth consecutive year of national recognition for Chelan PUD's fleet services department.

Employees act swiftly to aid parks patron


Evan Smith


Anthony Iberra

In an act of heroism, in July two PUD Parks employees came to the rescue to save a man experiencing a life-threatening medical emergency in a riverfront park. Hearing calls for help, Evan Smith and Anthony Iberra, jumped into action, pulled the man from a parked vehicle, and started chest compressions when they couldn't find a pulse. They continued support until paramedics arrived to transport the man to the hospital. Without their courageous actions, the man likely would not have survived.

Steve Wright recognized as energy efficiency, public service champion

Former General Manager Steve Wright was honored with three prestigious awards before his retirement in December 2021: The Alliance to Save Energy's Charles H. Percy Award, the Northwest Energy Efficiency Alliance's Chairperson's Award and a Lifetime Achievement Award by the Washington Public Utility District Association.

People's Choice Award for Best Photo —
Andrew York Sub sunset by Brian Smith

Chelan PUD recognized for communications, photography

PUD staff received several communications awards from the Western Energy Institute, the Northwest Public Power Association and the American Public Power Association. The awards honored photography, Chelan PUD's internal campaign to promote charitable giving, an external campaign advertising energy efficiency rebates, and a partnership with Chelan-Douglas Health District regarding COVID-19 outreach.

Report of Independent Auditors

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

Opinion

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, 2021 and December 31, 2020, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if

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

there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 19 through 25 and the required supplementary information on pages 58 through 59 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining schedule of revenues, expenses and changes in net position, of assets and deferred outflows of resources and liabilities, deferred inflows of resources and net position, and of cash flows on pages 61 through 65 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information presented as continuing disclosure on pages 66 through 82 are presented for purposes of additional analysis and are 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

April 11, 2022

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

THIS PAGE INTENTIONALLY LEFT BLANK

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, 2021 and 2020. 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 position of $137 million during 2021, $84 million more than budget for the year and $60 million higher than the prior year's results of $77 million. The District continued to achieve strong operating results while meeting strategic priorities to invest in utility assets and employees, pay down debt and continue Public Power Benefit projects and responding to the COVID-19 pandemic. Higher revenues from selling renewable, carbon-free hydropower and local services were partially offset by increased operational costs. In addition, two infrequent items were significant contributors to the positive results. Strong wholesale market prices contributed to long-term contract proceeds in excess of budgeted amounts and a board action that resulted in a one-time accounting adjustment for transition to regulatory accounting for actuarial changes in pension expense were both primary drivers for the higher bottom line. The District invested $165 million in capital projects in 2021, the biggest year since 2002. Investments include the modernization of Rock Island Powerhouse 1, new facilities at Rock Island and Rocky Reach, the new Service Center, new substations and fiber network expansion. Overall, the District's financial standing remains strong, and its debt ratio remained below the 35% target consistent with the District's 2020-2024 Strategic Plan.*
- *Building construction continued in 2021 on the future home of the District's comprehensive Service Center. The 19-acre campus will combine most of the District's non-hydro services. The site is the geographic center of Chelan County, which will help reduce response times and operational costs. The centralized location also creates one convenient stop where customer-owners can pay bills, apply for new services and meet with staff and commissioners. Construction is slated to continue through 2022, with a gradual move-in planned for early 2023 with customer service functions slated to begin at the new site in spring 2023. About 78% of the first-phase work was awarded to local contractors. Sales tax payments associated with the nearly $140 million project will also provide a local economic boost. The new Service Center will replace several aging District facilities, including its downtown headquarters built in 1955.*
- *Work continued on the modernization project of six units in the first powerhouse at Rock Island Dam. Modernization work on three units was completed in prior years, but these units have suffered various turbine issues since 2018. The contractor completed a root cause analysis of the failures, and remedies and costs were negotiated. Repair work on one unit was completed and the unit returned to service in 2021. Repairs, re-work and modernization for the remaining five units in the first powerhouse are anticipated to be complete in 2025. Two of the five will return to service in 2022. The original four generating units in the first powerhouse at Rock Island Dam were taken out of service in early 2016 due to corrosion fatigue on the blades following 50-plus years of service. Work began in 2018 and is currently scheduled to be completed by 2025. Work on the first unit was completed and the unit returned to service in 2021. 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 District and GE Renewable Energy reached an agreement in 2021 for the modernization at Rock Island Powerhouse II. The 40-plus-year-old turbines will be rebuilt one by one with expected completion of all eight by 2031 at an estimated cost of $456 million.*

- *The remaining two large units to be repaired at Rocky Reach Dam are in service with fixed blade operation. Repairs on these units are scheduled to begin in summer 2022. Both units are expected to return to service by late 2024. Repairs were previously completed on two other units. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.*
- *The District and Puget Sound Energy (PSE) entered into a new five-year contract for renewable hydropower from the District's two hydro projects on the Columbia River. The contract will bolster PSE's supply of carbon-free energy, in line with the goal of becoming a "Beyond Net Zero Carbon" energy company by 2045, while also supporting Washington State's Clean Energy Transformation Act (CETA) goals. The five-year, fixed-price "slice" contract supplies PSE with 5% of the output from the District's Rock Island and Rocky Reach hydropower projects from 2022 through 2026. The contract complements an existing contract between the two utilities, while generating revenue for the District to provide continued rate stability for its customers.*
- *The District and Avista Corporation (Avista) entered into a new 10-year contract for renewable hydropower from the District's Rock Island and Rocky Reach projects. The contract increases Avista's carbon-free resources in its energy portfolio, helping achieve the company's clean electricity goals and supporting Washington State's CETA goals as well. The partnership supports the District's long-term power marketing strategy toward longer 10-year contracts, bringing value to its customer-owners. The fixed price "slice" contract provides Avista with 5% of the output from the two hydro projects from 2024 through 2033. This contract complements an existing contract between the two utilities to supply Avista customers with renewable hydropower output from the two District projects.*
- *The District and Avista also finalized a 20-year contract in 2021 for renewable hydropower from the District's two Columbia River hydro projects beginning in 2026. The 20-year contract increases Avista's carbon-free resources toward its renewable energy and CETA goals, as well as contributes flexible capacity to identified needs in Washington and Idaho. The contract was negotiated after a competitively bid Renewable Request for Proposals process and includes both carbon-free energy attributes provided by hydropower as well as dispatchable capacity to help Avista meet peak energy needs during high customer usage times. The contract pricing is based on the District's cost of production plus a fixed price portion for the environmental and capacity values from the output. The cost-plus "slice" contract provides Avista with 5% of the output from the District's Rock Island and Rocky Reach hydropower projects from 2026 through 2030. It increases to 10% of the output from the two District projects in 2031 through 2045.*
- *The District's strong finances helped it weather the modest impacts to revenues and costs as a result of the COVID-19 pandemic. The District's ability to meet the predicted impacts shows the resilience gained with prudent financial policies, a strong cash position, robust risk management and hedging policies, as well as business continuity plans and actions. As more employees transitioned back into the office in mid-2021, proactive safety measures remained in place to protect District staff and customers. The District also continued to support actions that make an impactful and meaningful difference to community members in need, including providing support for vaccination site infrastucture and partnering with local service providers to create Wi-Fi access points across the county to provide free internet access to help the community and students in need of Wi-Fi access. Additionally, through September 2021, the District waived late fees and suspended disconnects for failure to pay. District Commissioners also approved a PUD match of customer donations to the Helping Hand fund that assists low-income customers in covering their utility bills.*

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 the District's net position as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The Statements of Net Position provide 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. These statements measure the success of operations over the year and can be used to determine whether the District has successfully recovered its costs.

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

The District's total net position increased by $137 million in 2021 and $77 million in 2020, despite an increase in operational costs in 2021 and modest impacts to revenues as a result of weather and COVID-19 in 2020. Strong financial results despite these adversities and the continuing operating challenges of generating unit repairs at Rocky Reach and Rock Island, demonstrate 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. The change in net position for 2021 is higher when compared to 2020 due primarily to additional proceeds received from a long-term power sales agreement, higher average market prices received on surplus sales of electricity and a board action that resulted in a one-time accounting adjustment for transition to regulatory accounting for actuarial changes in pension expense.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2021	2020	2019	Increase (Decrease) 2021 – 2020
Current assets	$ 161	$ 204	$ 190	$ (43)
Net utility plant	1,380	1,254	1,184	126
Other non-current assets	529	564	520	(35)
Total assets	2,070	2,022	1,894	48
Deferred outflows of resources	11	12	12	(1)
Current liabilities	142	132	126	10
Long-term debt	372	498	438	(126)
Other liabilities	131	166	180	(35)
Total liabilities	645	796	744	(151)
Deferred inflows of resources	110	49	50	61
Net investment in capital assets	976	791	703	185
Restricted	165	143	186	22
Unrestricted	185	255	223	(70)
Total net position	$ 1,326	$ 1,189	$ 1,112	$ 137

(amounts in millions)	2021	2020	2019	Increase (Decrease) 2021 – 2020
Operating revenues	$ 443	$ 354	$ 385	$ 89
Less				
Operating expenses	331	271	265	60
Other income and expenses	8	11	12	(3)
Net income before capital contributions and special items	104	72	108	32
Capital contributions	7	5	6	2
Special Items – pensions	26	-	-	26
Change in net position	137	77	114	60
Total net position – beginning of year	1,189	1,112	998	77
Total net position – end of year	$ 1,326	$ 1,189	$ 1,112	$ 137

ASSETS

Current assets decreased by $43 million in 2021 primarily due to a decrease in investment balances. The lower investment balances were primarily the result of funding a portion of both debt repayments and capital spending from unrestricted operating reserves.

Current assets increased by $14 million in 2020 primarily due to an increase in investment balances. The higher investment balances were primarily the result of cash generated by the District's positive operating results exceeding reserves used to fund capital and make regularly scheduled debt service payments.

As of December 31, 2021, the District had approximately $1.4 billion invested in a variety of capital assets. Net utility plant increased $126 million in 2021, reflecting additional investments in utility plant assets. Additions included continued spending for the ongoing modernization at the Rock Island hydroelectric project, progress toward the District's new Service Center, facility upgrades at Rocky Reach and Rock Island and distribution system services, substation construction and improvements. The 2021 additions were partially offset by annual depreciation of plant in service.

As of December 31, 2020, the District had approximately $1.3 billion invested in a variety of capital assets. Net utility plant increased $70 million in 2020, reflecting additional investments in utility plant assets. Additional investments in plant, the largest being the ongoing modernization at the Rock Island hydroelectric project, were offset somewhat by annual depreciation. Other large additions include spending for the new operations and service center, facility upgrades at Rocky Reach and Rock Island and substation construction.

Other noncurrent assets, which includes noncurrent restricted assets and other assets, decreased $34 million in 2021 due primarily to lower investment balances resulting from debt repayments and capital spending from reserves exceeding cash generated by the District's positive operating results. Lower investment balances were partially offset by the recognition of a net pension asset for the first time in 2021. The Washington State Department of Retirement Systems' PERS Plans 2 and 3 pension plans are now estimated to be overfunded as a result of the 2021 actuarial valuation. The District's proportionate share of the net pension asset was $68.1 million as of December 31, 2021.

Other noncurrent assets increased $44 million in 2020. The increase was due primarily to the investment of proceeds associated with the District's issuance of bonds in May 2020.

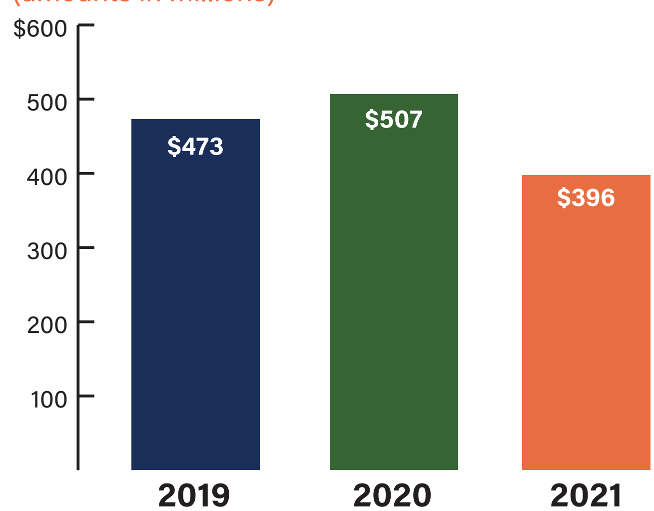
Deferred outflows of resources remained comparable for all three years.

LIABILITIES

Current liabilities increased $10 million in 2021 due to increases in current portion of long-term obligations and accounts payable. Current portion of long-term obligations is higher than the prior year due to an increase in scheduled maturities of debt principal. Accounts payable increased due to higher accruals over the prior year resulting from fluctuations in the amount and timing of billings related to construction contracts.

Current liabilities increased $6 million in 2020 primarily due to increases in accounts payable and accrued interest. Accounts payable increased as a result of higher accruals over the prior year due to normal fluctuations in the amount and timing of billings related to some large ongoing construction contracts. Accrued interest increased in 2020 due to the District's May 2020 issuance of bonds resulting in higher debt balances compared to 2019.

Total Debt Outstanding
(amounts in millions)



During 2021, reductions in debt balances due to scheduled maturities of debt and early retirements on the 2011ABC bonds were partially offset by accretion of interest on capital appreciation bonds, resulting in a net decrease in total debt outstanding of $110 million. This reduction in total debt contributed to the $126 million reduction in long-term debt in 2021, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2021.

During 2020, the District issued $134 million of bonds, a portion of which was used to refund and retire existing debt. Increases to debt balances due to this issuance of bonds and accretion of interest on capital appreciation bonds more than offset reductions for scheduled maturities of debt, resulting in a $60 million increase in long-term debt in 2020, which is net of premiums, discounts and the current portion of the obligations.

Other liabilities decreased by $35 million in 2021, primarily due to the continued amortization of unearned wholesale power sales revenue combined with a decrease in pension liability. Unearned wholesale power sales revenue was received previously from power purchasers and is being recognized as revenue over the life of the agreements. Net pension liability fluctuates due to changes in the actuarial valuation of the collective net pension liability of PERS plans administered by the Washington State Department of Retirement Systems in which the District participates. As a result of the 2021 actuarial valuation, PERS Plans 2 and 3 are now over-funded, resulting in a significant decrease in the District's net pension liability.

Other liabilities decreased by $14 million in 2020, primarily due to the continued amortization of unearned wholesale power sales revenue. Unearned wholesale power sales revenue was received previously from power purchasers and is being recognized as revenue over the life of the agreements.

Deferred inflows of resources increased $61 million and decreased $1 million in 2021 and 2020, respectively. The increase in 2021 was primarily due to the Department of Retirement Systems' annual actuarial valuation showing improved funding status of the PERS pension plans in which the District participates. The primary driver of the improvement was better-than-projected investment performance, resulting in an increase in the District's proportionate share of deferred inflows of resources. The decrease in 2020 was primarily due to the decrease in the District's proportionate share of collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems offset by an increase in the fair value of investments in the District's investment portfolio. As interest rates continued to decline during 2020, the District's longer-term investments previously entered into at higher rates became more valuable in the market.

NET POSITION

Net investment in capital assets increased $185 million and $88 million in 2021 and 2020, respectively. The increase in 2021 reflects additions to plant combined with reductions in debt as a result of both scheduled repayments and early retirements of existing debt. The increase in 2020 reflects additions to plant offset by additions in debt as a result of the issuance of additional bonds in 2020.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased $22 million and decreased $43 million in 2021 and 2020, respectively. The increase in 2021 was primarily due to an increased balance of funding under long-term power sales agreements that are restricted for capital spending and debt service. The increase in these restricted funds was offset somewhat by a decrease in required bond reserves resulting from lower debt balances compared to the prior year. The decrease in 2020 was primarily due to use of restricted cash and investments to fund capital construction at the District's hydroelectric projects.

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 2021, unrestricted net position decreased $70 million due to the use of unrestricted cash reserves for debt repayment and capital spending. These outflows of cash exceeded the positive cash flow from operations. In 2020, unrestricted net position increased $32 million due to positive operating results.

REVENUES AND EXPENSES

Retail sales increased $15 million compared to 2020. Sales were higher due to a combination of increased customer numbers, higher usage, a rate increase and increased revenue associated with an off-system retail load.

In 2020, retail sales remained relatively flat compared to 2019. The District's local retail sales were lower in 2020 than 2019 due to lower usage resulting from weather and COVID-19 impacts; however, the decrease in local revenues was offset by increased revenue associated with a new off-system retail load.

Wholesale sales increased $69 million compared to 2020 due to higher average market prices received on surplus sales of energy and additional proceeds from a long-term power sales agreement.

In 2020, wholesale sales decreased $15 million compared to 2019 primarily due to lower average market prices on surplus sales of energy.

Purchased power costs also increased $38 million in 2021 compared to 2020. The higher costs are primarily due to significantly higher average market prices compared to 2020.

Purchased power costs also decreased $8 million in 2020 compared to 2019. The lower costs are primarily due to lower average market prices compared to 2019.

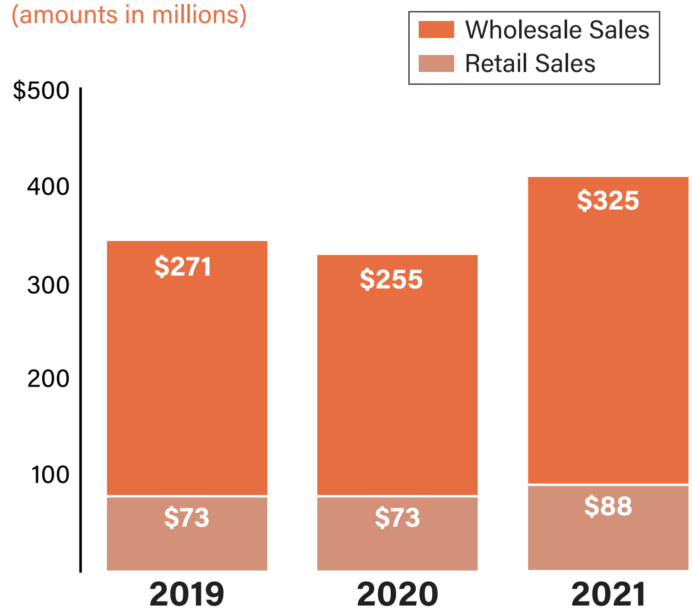
Other income and expenses, which included net interest expense and income, decreased by $3 million in 2021 primarily due to reduced interest on long-term debt resulting from lower debt balances, partially offset by decreased investment income earned as a result of declining interest rates and lower cash and investment balances.

Other income and expenses, which included net interest expense and income, decreased by $1 million in 2020, compared to 2019, primarily due to lower investment income earned as a result of declining interest rates.

Net income before capital contributions increased $32 million compared to 2020. The improvement in earnings is due to increased operating revenues resulting primarily from additional proceeds associated with a long-term power sales agreement and higher average market prices received on surplus sales of electricity. Capital contributions remained relatively flat from 2021 to 2020. Special items – pensions added $26 million as a result of the board action that resulted in a one-time accounting adjustment for transition to regulatory accounting for actuarial changes in pension expense.

In 2020, net income before capital contributions decreased $36 million compared to 2019. The decrease in earnings is due primarily to non-recurring proceeds received in 2019 from a long-term power sales agreement and an insurance settlement. Lower investment income resulting from declining interest rates also contributed to the decrease. Capital contributions remained relatively flat from 2019 to 2020.

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, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	$ 20,022	$ 10,527
Investments	62,982	127,279
Accounts receivable, net	41,235	29,580
Accrued interest receivable	1,285	1,526
Materials and supplies	17,700	14,749
Prepayments and other	3,143	2,173
Current portion of regulatory assets	2,978	2,978
	149,345	188,812
RESTRICTED ASSETS – CURRENT		
Cash and cash equivalents	2,835	1,176
Investments	8,915	14,177
	11,750	15,353
TOTAL CURRENT ASSETS	161,095	204,165
UTILITY PLANT		
In service, at original cost	2,246,722	2,134,139
Construction work in progress	257,084	206,188
Less-accumulated depreciation	(1,124,002)	(1,086,787)
	1,379,804	1,253,540
RESTRICTED ASSETS – NONCURRENT		
Cash and cash equivalents	7,038	3,351
Investments	166,967	225,298
	174,005	228,649
OTHER ASSETS		
Deferred relicensing costs	3,099	369
Net pension asset	68,087	-
Long-term receivables, net	205	247
Long-term investments	239,059	289,267
Regulatory assets, net	35,418	37,056
Derivative instrument asset	6,032	8,037
Other	3,818	770
	355,718	335,746
TOTAL ASSETS	2,070,622	2,022,100
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	2,334	3,314
Pensions	8,465	9,058
Other post-employment benefits	259	135
	11,058	12,507
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,081,680	$ 2,034,607

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2021	2020
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 43,912	$ 36,418
Current portion of unearned wholesale power sales	15,110	15,078
Warrants and accounts payable	55,848	50,317
Accrued taxes	4,853	4,571
Accrued interest	4,427	8,028
Accrued vacation and other	18,036	17,398
	142,186	131,810
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	372,444	498,255
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	96,108	110,072
Net pension liability	6,552	27,432
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	8,976	9,194
Other liabilities	1,135	970
	131,271	166,168
TOTAL LIABILITIES	645,901	796,233
DEFERRED INFLOWS OF RESOURCES		
Derivatives	6,032	8,037
Pensions	70,220	8,054
Regulatory liabilities	33,427	33,013
Other postemployment benefits	336	292
	110,015	49,396
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Net Investment in capital assets	975,361	790,602
Restricted	165,291	143,159
Unrestricted	185,112	255,217
	1,325,764	1,188,978
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 2,081,680	$ 2,034,607

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2021 and 2020

(amounts in thousands)	2021	2020
OPERATING REVENUES		
Retail sales	$ 88,028	$ 73,366
Wholesale sales	324,623	255,179
Other operating revenues	30,193	24,977
	442,844	353,522
OPERATING EXPENSES		
Purchased power and water	79,122	41,191
Generation	114,928	100,216
Utility services	60,923	57,416
Taxes	11,552	10,054
Depreciation and amortization	47,473	45,942
Other operation and maintenance	17,425	16,145
	331,423	270,964
OPERATING INCOME	111,421	82,558
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(21,330)	(24,126)
Amortization of deferred debt costs	(632)	(704)
Investment income	11,294	13,708
Federal subsidy income	-	200
Other	2,779	(295)
	(7,889)	(11,217)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEMS	103,532	71,341
CAPITAL CONTRIBUTIONS	6,827	5,225
SPECIAL ITEMS –		
Regulatory accounting pensions	26,427	–
CHANGE IN NET POSITION	136,786	76,566
TOTAL NET POSITION		
Beginning of year	1,188,978	1,112,412
TOTAL NET POSITION		
End of year	$ 1,325,764	$ 1,188,978

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

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020

(amounts in thousands)	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 416,310	$ 338,885
Payments to suppliers	(171,069)	(118,708)
Payments to employees	(108,271)	(109,794)
Net cash provided by operating activities	136,970	110,383
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(164,144)	(115,013)
Proceeds from sale of plant	430	113
Proceeds of new debt	-	164,649
Principal paid on debt	(120,692)	(112,364)
Interest paid on debt	(15,193)	(11,196)
Capital contributions	5,822	4,645
Other	(10,185)	(5,547)
Net cash used in capital and related financing activities	(303,962)	(74,713)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(113,736)	(245,976)
Proceeds from sales and maturities of investments	283,047	147,574
Interest on investments	11,835	14,170
Long-term receivables	42	79
Other, net	645	(99)
Net cash provided by (used in) investing activities	181,833	(84,252)
NET CASH (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	14,841	(48,582)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	15,054	63,636
CASH & CASH EQUIVALENTS, END OF YEAR	$ 29,895	$ 15,054
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 111,421	$ 82,558
Depreciation and amortization	47,473	45,942
(Increase) decrease in operating assets:		
Accounts receivable, net	(11,655)	165
Materials and supplies	(2,951)	(1,347)
Prepayments	(970)	(151)
Net OPEB asset	33	(94)
Other	4,179	3,574
Deferred outflows of resources	(124)	(1,089)
Increase (decrease) in operating liabilities:		
Current portion unearned wholesale power sales	32	50
Accounts payable	3,322	1,012
Accrued taxes	282	399
Accrued vacation and other	638	1,079
Unearned wholesale revenue	(14,824)	(14,585)
Customer deposits	70	(3)
Net pension liability	-	(423)
Deferred inflows of resources	44	(6,704)
Net cash provided by operating activities	$ 136,970	$ 110,383
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 2,139	$ 2,479
Capital contributions	9,288	368
Amortization of regulatory assets	3,202	2,838

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 material component units. The District's operations consist of the Rocky Reach Hydroelectric System, the Rock Island Hydroelectric System, the Lake Chelan Hydroelectric System (the Hydro Systems); a retail electric distribution and transmission system, a water system, a wastewater system, a fiber-optic telecommunication system (Utility Services); and two internal service systems.

ACCOUNTING POLICIES

The accompanying financial statements of the District conform to accounting principles generally accepted in the United States of America (GAAP) applicable to a municipal utility. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements including GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."

In 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 2022. The District is currently evaluating the financial statement impact of adopting this statement.

In May 2019, GASB issued Statement No. 91, "Conduit Debt Obligations." This statement clarifies the existing definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer and establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations. This statement is effective for fiscal year 2022. The District is currently evaluating the financial statement impact of adopting this statement.

In January 2020, GASB issued Statement No. 92, "Omnibus 2020." This statement addresses practice issues that have been identified during implementation of certain GASB issues and provides additional requirements for specific issues. Elements of this statement are effective for fiscal year 2022. The District is currently evaluating the financial statement impact of adopting this statement.

In March 2020, GASB issued Statement No. 93, "Replacement of Interbank Offered rates." The objective of this statement is to remove payment agreements that depend on LIBOR (London Interbank Offered Rate). The statement also provides more guidance on hedges and lease provisions. This statement is effective for the District for fiscal year 2022. The District is currently evaluating the impact of adopting this statement.

In March 2020, GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." This statement provides guidance for reporting relationships where nonfinancial exchanges are made and how they should be reported. This statement is effective for the District for fiscal year 2023. The District is currently evaluating the financial statement impact of adopting this statement.

In May 2020, GASB issued Statement No. 96, "Subscription Based Information Technology Arrangements." This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end-users. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended; including the establishment of an intangible asset and a corresponding subscription liability for qualified SBITAs. This statement is effective for the District for fiscal year 2023. The District is currently evaluating the financial statement impact of adopting this statement.

In October 2021, GASB issued Statement No. 98, "The Annual Comprehensive Financial Report." This statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. The new term and acronym replace *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. This statement is effective for fiscal year 2021. Implementation did not impact the District's financial statements.

SPECIAL ITEM — TRANSITION TO REGULATORY ACCOUNTING — PENSIONS

The Commission approved a resolution to include the cash contribution for pensions as set by the Washington State Pension Funding Council, in the District's rate setting calculations. This board action, effective for 2021, resulted in the use of regulatory accounting to defer any differences between the required cash contributions and pension expense calculated in accordance with GASB 68, "Accounting and Financial Reporting for Pensions." This approach was used for recording 2021 pension expense. Differences recognized in Net Position in prior years were reclassified as regulatory balances, and a one-time adjustment of $26.4 million was recognized on the District's 2021 Statement of Revenues, Expenses and Changes in Net Position as a result of this action. Due to the infrequent nature of this type of action by the Commission, the $26.4 million increase to Net Position is presented as a Special Item on the face of the 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, 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 $3.0 million and $2.9 million in 2021 and 2020, respectively. The amounts are included in accounts receivable.

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

In January 2006, the District entered into a 20-year power sales contract with Puget Sound Energy (PSE) for 25% of the output of the Rocky Reach and Rock Island projects, effective in 2011 and 2012, respectively. PSE is generally responsible to pay 25% of all costs associated with the projects, including capital, operation and maintenance and debt service costs, 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., now Alcoa Corporation, 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 the 90-day threshold of being curtailed was reached, the proceeds from the sale of any unused power are first applied to Alcoa Corporation's monthly contractual costs. Any surplus proceeds in excess of Alcoa Corporation's costs are retained by the District, and any shortfalls are 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 $67.1 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 $62.4 million, as well as extending contract collateral requirements. The $4.5 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The $2.8 million deferral charge was included as a component of other operating revenues on the Statement of Revenues, Expenses and Changes in Net Position.

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

In December 2021, Alcoa Corporation announced that the Wenatchee Works smelting facility will be permanently decommissioned. Closure of the plant does not impact the contract terms of the power sales agreement, which remains in effect until expiration in 2028.

In December 2021, the District entered into a 20-year power sales contract with Avista Corporation for 5% of the output of the Rocky Reach and Rock Island projects for the years 2026 thru 2030, and 10% of the output for the years 2031 thru 2045. Avista Corporation is generally responsible to pay 5% for the first 5 years and 10% for the remainder of the agreement, of all costs associated with the projects, including capital, operation and maintenance and debt service costs, in addition to charges for capital recovery, debt and various fees.

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, 2021, the Rocky Reach, Rock Island and Lake Chelan Systems sell 49%, 49% and 100%, 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, 2021 and December 31, 2020, booked-out energy transactions amounted to $55.7 million and $40.4 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, 2021, the District had two significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $140.1 million. The District had three significant customers for the year ended December 31, 2020, collectively comprising total revenue of $144.3 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.

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

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

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 to help manage risk and keep future rates stable and affordable. A key component of this strategy includes the execution of market-based wholesale products such as fixed price 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 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 as defined by the hedging strategy. The execution of fixed price slice output contracts, which provide a counterparty with a percentage share of hydropower production for a fixed payment, help mitigate price risk, as well as mitigating volumetric risk related to river flows and production risk related to the District's ability to generate power due to generating 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. In 2017, the District entered into an agreement under this resolution for a 10-year slice sale of 5% of Rocky Reach and Rock Island output for the years 2021-2030. Additionally, in March of 2021, the District entered into another agreement under the resolution for a 10-year slice of 5% of Rocky Reach and Rock Island output for the years 2024-2033, with an option to extend an additional five years. Both agreements further hedge against downside risk and help reduce wholesale revenue volatility.

On December 30, 2021, the District entered into an extended duration Power Sales Agreement that supports the long-term marketing strategy. This agreement has a delivery term of 20 years with deliveries occurring January 1, 2026 through December 31, 2045. The total amount of output sold is 5% of the output of Rocky Reach and Rock Island hydroelectric projects through December 31, 2030, increasing to 10% for the remainder of the term. The agreement pricing is based on the District's cost of production, where the counterparty pays their proportionate share, plus price adders that includes a fixed price portion for the additional value provided from the output, including from environmental attributes and capacity. Like the fixed price slice output contracts, this agreement hedges downside risk against low streamflow and outages and helps reduce wholesale volatility. In addition, it provides protection from rising costs.

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, including the two 10-year market-based contracts, or when deemed necessary to mitigate the District's credit risk. 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 2021 and 2022 are classified as normal purchases and sales under GASB Statement No. 53, and 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 $101,000 at December 31, 2021 and 2020, respectively.

CAPITAL CONTRIBUTIONS

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

MATERIALS AND SUPPLIES INVENTORY

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

COMPENSATED ABSENCES

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

UTILITY PLANT

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

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

PENSIONS

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

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The District identified AROs for certain assets that are expected to operate in perpetuity. As the District cannot estimate a settlement date or extent of the obligation, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities are not recorded for retirement activities associated with certain transmission, distribution and wastewater facilities and hydro-electric projects. The District does not have any recorded AROs as of December 31, 2021 or 2020.

SUBSEQUENT EVENTS

The District has evaluated all subsequent events through April 11, 2022, 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, 2021, and events which occurred subsequent to December 31, 2021, 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)	2021	2020
Unrestricted assets		
Unrestricted	$ 104,064	$ 108,427
Board designated	217,999	318,646
Total unrestricted assets	322,063	427,073
Restricted assets	185,755	244,002
	$ 507,818	$ 671,075

As of December 31, 2021 and 2020, the District had the following cash and investments:

Investment Type (amounts in thousands)	Total 2021	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 39,642	$ 18,925	$ -	$ -	$ 20,717
U.S. Treasury Strips	36,854	17,327	-	-	19,527
U.S. Agency Notes	139,545	19,789	47,278	29,290	43,188
U.S. Agency Bills	3,482	-	3,482	-	-
Municipal Bonds	83,258	24,709	17,273	15,188	26,088
State Investment Pool	64	64	-	-	-
Certificates of Deposit	175,143	32,275	5,528	38,339	99,001
Cash Deposits	29,830	29,830	-	-	-
	$ 507,818	$ 142,919	$ 73,561	$ 82,817	$ 208,521

Investment Type (amounts in thousands)	Total 2020	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 63,326	$ 52,023	$ -	$ -	$ 11,303
U.S. Treasury Strips	17,313	-	17,313	-	-
U.S. Agency Notes	213,141	73,185	20,244	48,550	71,162
U.S. Agency Bills	5,404	1,922	-	3,482	-
Municipal Bonds	117,179	21,369	29,041	19,302	47,467
State Investment Pool	64	64	-	-	-
Certificates of Deposit	239,658	88,128	31,598	5,348	114,584
Cash Deposits	14,990	14,990	-	-	-
	$ 671,075	$ 251,681	$ 98,196	$ 76,682	$ 244,516

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, 2021 and 2020:

Investments (amounts in thousands)	Total 2021	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 39,642	$ 20,717	$ -	$ -	$ -	$ 18,925
U.S. Treasury Strips	36,854	36,854	-	-	-	-
U.S. Agency Notes	139,545	-	139,545	-	-	-
U.S. Agency Bills	3,482	-	3,482	-	-	-
Municipal Bonds	83,258	-	83,258	-	-	-
State Investment Pool	64	-	-	-	-	64
Certificates of Deposit	175,143	-	-	-	-	175,143
Cash Deposits	29,830	-	-	-	-	29,830
Total Investments	$ 507,818	$ 57,571	$ 226,285	$ -	$ -	$ 223,962

Investments (amounts in thousands)	Total 2020	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 63,326	$ 63,326	$ -	$ -	$ -	$ -
U.S. Treasury Strips	17,313	17,313	-	-	-	-
U.S. Agency Notes	213,141	-	194,135	-	-	19,006
U.S. Agency Bills	5,404	-	5,404	-	-	-
Municipal Bonds	117,179	-	108,120	-	-	9,059
State Investment Pool	64	-	-	-	-	64
Certificates of Deposit	239,658	-	-	-	-	239,658
Cash Deposits	14,990	-	-	-	-	14,990
Total Investments	$ 671,075	$ 80,639	$ 307,659	$ -	$ -	$ 282,777

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, 2021 and 2020, investments in debt securities had credit quality ratings as follows:

INVESTMENT RATING (S&P EQUIVALENT)

(amounts in thousands)	2021	2020
Long Term		
AAA	$ 21,546	$ 24,189
AA+	136,113	222,936
AA	35,856	50,679
AA-	19,310	16,432
Short Term		
SP-1+	-	7,559
	$ 212,825	$ 321,795

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, 2021 and 2020, 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 2021	2020
Federal Farm Credit Bank	AA+	9%	8%
Federal Home Loan Bank	AA+	10%	10%
Federal National Mortgage Association	AA+	2%	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, 2021, are provided below.

FORWARD PURCHASE AGREEMENT

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/21 Fair Value	12/31/20 Fair Value
Wells Fargo Bank, N.A.	Aa2/A+/AA-	6.63%	$ 18,820,179	12/22/1999	6/1/2029	$ 6,031,807	$ 8,037,000

As of December 31, 2021 and 2020, the agreement is considered a hedging derivative instrument, and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to interest rates which are lower than when the forward purchase agreement was entered into, the agreement had a positive fair value to the District as of December 31, 2021 and 2020. 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, 2021 and 2020 is as follows:

(amounts in thousands)	January 1, 2021	Additions	Reductions and Transfers	December 31, 2021	Depreciation Expense
Hydroelectric generation	$ 1,292,582	$ 78,543	$ (5,497)	$ 1,365,628	$ 21,887
Transmission	162,514	2,846	(348)	165,012	3,265
Distribution	275,483	25,237	(2,327)	298,393	7,969
General plant	172,511	10,681	(2,415)	180,777	7,900
Intangible	40,346	320	-	40,666	800
Telecommunications	100,353	4,594	(48)	104,899	3,825
Water/ Wastewater	90,350	1,422	(425)	91,347	1,827
	2,134,139	123,643	(11,060)	2,246,722	$ 47,473
Construction work in progress	206,188	164,930	(114,034)	257,084	
Accumulated depreciation	(1,086,787)	(47,473)	10,258	(1,124,002)	
	$ 1,253,540	$ 241,100	$ (114,836)	$ 1,379,804	

(amounts in thousands)	January 1, 2020	Additions	Reductions and Transfers	December 31, 2020	Depreciation Expense
Hydroelectric generation	$ 1,288,520	$ 5,744	$ (1,682)	$ 1,292,582	$ 20,888
Transmission	160,042	3,320	(848)	162,514	3,175
Distribution	268,012	9,882	(2,411)	275,483	7,305
General plant	163,531	12,084	(3,104)	172,511	7,535
Intangible	39,925	421	-	40,346	1,533
Telecommunications	95,799	4,554	-	100,353	3,575
Water/ Wastewater	89,776	591	(17)	90,350	1,931
	2,105,605	36,596	(8,062)	2,134,139	$ 45,942
Construction work in progress	126,622	115,373	(35,807)	206,188	
Accumulated depreciation	(1,048,308)	(45,942)	7,463	(1,086,787)	
	$ 1,183,919	$ 106,027	$ (36,406)	$ 1,253,540	

Plant assets include land of $84.9 million and $84.8 million as of December 31, 2021 and 2020, 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 servo-rod, which is part of the mechanism used to adjust turbine blades. 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 by limiting the blades to a fixed operating mode, with the last of the four large units being returned to service in April 2014. The first two units have been repaired and returned to Kaplan operation with variable blade capability in December 2017 and January 2020, respectively. The remaining two units are in service with fixed blade operation with repairs scheduled to begin in Summer 2022, and both units are expected to return to service by late 2024. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.

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 Rock Island Project license was issued in January 1989. The Rock Island Project license expires December 31, 2028. The District began meeting with stakeholders, including local communities, state and federal agencies, Tribes and non-governmental organizations, on the relicensing process in 2021. 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 costs associated with relicensing the projects have been included in the District's Utility Plant balance as Intangible Assets and are being amortized over the lives of the associated licenses.

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

The license for the Lake Chelan Project is based on a settlement agreement submitted to FERC in October 2003, between the District and stakeholders, including local communities, state and federal agencies, Tribes and non-governmental organizations. 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 $9.6 million as of December 31, 2021 and 2020, 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 funding obligations, accounted for as intangible assets, for the years ended December 31, 2021 and 2020 are as follows:

(amounts in thousands)	2021	2020
Licensing obligation – beginning of year	$ 9,640	$ 9,503
Additions	320	421
Reductions	(545)	(284)
Licensing obligation - end of year	$ 9,415	$ 9,640

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 non-governmental organizations. The Rocky Reach Project license requires implementation of various operational requirements and environmental protections. Primary measures include continuation of the HCP for salmon and steelhead, measures to protect and enhance white sturgeon, bull trout, resident fish and pacific lamprey, and operation and maintenance of Beebe Bridge, Chelan Falls, Powerhouse, Entiat, Daroga, Lincoln Rock and Rocky Reach Dam parks. As also required in the license, the District finalized detailed management plans for operations, shoreline erosion, water quality, recreation, cultural and wildlife resources. These plans are now being implemented. The Rocky Reach project license does not contain funding obligations; therefore, future costs of implementing the license requirements cannot be reasonably estimated and no obligation has been recorded. All related costs are recognized as operating expenses in the year incurred.

NOTE 5: REGULATORY DEFERRALS

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

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

The following regulatory balances are as of December 31, 2021 and 2020.

(amounts in thousands)		2021		2020
Regulatory Assets:				
Swap termination payments	$	9,492	$	12,062
Conservation expenses		19,597		18,802
Debt issuance costs		3,188		4,100
Investments in assets owned by others		5,489		4,253
Fair Value of Investments		409		817
Pension Expense		222		-
	$	38,397	$	40,034
Regulatory Liabilities:				
Contributed Capital	$	29,098	$	20,814
Fair Value of Investments		4,329		12,199
	$	33,427	$	33,013

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.

Investments in Assets Owned by Others. The District makes various contributions toward the cost of constructing assets that will be owned and maintained by another entity. These investments are made under agreements by which the District either directly or indirectly receives a benefit from construction of the asset. The Commission has approved a resolution that requires investments exceeding $1 million be deferred and amortized over the estimated benefit period in order to match the expense with the period the investment will be recovered through rates.

Pension Expense. The Commission approved a resolution to include the cash contributions for pensions as set by the Washington State Pension Funding Council in the District's rate setting calculations. This board action requires the use of regulatory accounting to defer any differences between the cash contributions and pension expense calculated in accordance with GASB 68 "Accounting and Financial Reporting for Pensions" as regulatory assets and/or liabilities. This approach matches pension expense with the recovery of the contributions through rates.

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

(amounts in thousands)	January 1, 2021	Additions	Reductions	December 31, 2021	Due Within One Year
REVENUE BONDS					
Rock Island Revenue Bonds, 6% to 6.05%, due June 1, 2022, to June 1, 2029	$ 172,096	$ 9,740	$ (22,685)	$ 159,151	$ 22,685
Consolidated System Revenue Bonds, 3.903% to 5.0%, due July 1, 2022, to July 1, 2039 (net unamortized premiums of $20,350)	355,169	-	(104,580)	250,589	20,000
	527,265	9,740	(127,265)	409,740	42,685
NOTES FROM DIRECT BORROWINGS					
Notes, 0.25% to 1.8%, due March 30, 2022, to March 30, 2040	6,962	-	(786)	6,176	787
Total Long Term Debt	$ 534,227	$ 9,740	$ (128,051)	$ 415,916	$ 43,472

(amounts in thousands)	January 1, 2020	Additions	Reductions	December 31, 2020	Due Within One Year
REVENUE BONDS					
Rocky Reach Revenue Bonds, 5%, retired May 1, 2020	$ 11,898	$ -	$ (11,898)	$ -	$ -
Rock Island Revenue Bonds, 6% to 6.05%, due June 1, 2021, to July 1, 2029	190,210	10,478	(28,592)	172,096	22,685
Consolidated System Revenue Bonds, 3.703% to 5.5%, due July 1, 2021, to July 1, 2039 (net unamortized premiums of $27,209)	267,612	163,209	(75,652)	355,169	12,500
	469,720	173,687	(116,142)	527,265	35,185
NOTES FROM DIRECT BORROWINGS					
Notes, 0.25% to 1.8%, due March 30, 2021, to March 30, 2040	6,291	1,440	(769)	6,962	787
Total Long Term Debt	$ 476,011	$ 175,127	$ (116,911)	$ 534,227	$ 35,972

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

PRINCIPAL AND INTEREST

(amounts in thousands)	Revenue Bonds Principal	Revenue Bonds Interest	Direct Borrowings Principal	Direct Borrowings Interest
2022	$ 42,685	$ 9,131	$ 787	$ 42
2023	45,020	8,436	788	38
2024	45,720	7,463	789	33
2025	48,495	6,431	790	29
2026	45,290	5,268	614	24
2027-2031	134,400	18,289	1,485	80
2032-2036	60,595	5,226	532	42
2037-2041	11,425	919	391	9
Total	$ 433,630	$ 61,163	$ 6,176	$ 297

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $434 million also include $44 million of future appreciation on Capital Appreciation Bonds (CABs).

In May 2020, the District issued $109.6 million of Chelan Consolidated System Revenue and Refunding Bonds, Series 2020A, $11.0 million and $13.2 million of Chelan Consolidated System Refunding Bonds, Series 2020B and 2020C, respectively. The 2020ABC bonds in the amount of $133.8 million were issued as fixed rate bonds with interest rates ranging from 4% to 5% and annual maturities between July 1, 2022 and July 1, 2039.

A portion of the proceeds, together with other available funds, were used to refund various debt issues to obtain an economic gain of $11.3 million.

The Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of $40.1 million at December 31, 2021, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (Credit Facility) associated with the bonds expired on March 7, 2013. A replacement standby bond purchase agreement was entered into with Union Bank, N.A. (Union Bank) and dated as of March 1, 2013 (Replacement Credit Facility). The Replacement Credit Facility was extended on April 17, 2015, and was terminated on June 22, 2018. The currently active standby bond purchase agreement was entered into with Barclays Bank PLC (Barclays) as of June 1, 2018 (Active Credit Facility), and was extended on December 20, 2021. The Active Credit Facility will be in effect through July 1, 2027. The District pays Barclays a commitment fee of 35 basis points as prescribed in the Active Credit Facility through June 30, 2022 and will pay a commitment fee of 31 basis points from July 1, 2022 through July 1, 2027. If any 2008B bonds are purchased and held by Barclays, the bonds will bear interest at a fluctuating annual rate as specified by the Active Credit Facility, which would be at least 700 basis points.

In addition, any 2008B bonds purchased and held under the Active Credit Facility are subject to special mandatory redemption over a five-year period in twenty equal quarterly principal installments. As of December 31, 2021, Barclays does not hold any un-remarketed 2008B bonds.

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

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

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, 2021 and 2020, the District was in compliance with all debt covenants.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the electric distribution system power is purchased from the District's hydro projects on a cost-plus basis. These intra-district purchases are eliminated in the Statements of Revenues, Expenses and Changes in Net Position. Power purchases from external sources amounted to $78.7 million and $40.8 million for 2021 and 2020, respectively, and is included as purchased power in the Statements of Revenues, Expenses and Changes in Net Position. This purchased power is used to meet local load requirements, meet certain contractual obligations, and support the District's hedging strategy.

NOTE 8: EMPLOYEE BENEFIT PLANS

PENSION PLANS

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

All information on the website is the responsibility of the State of Washington. The District's independent auditor has not audited nor examined such information and does not express an opinion nor 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%. 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%. 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 2021 were as follows:

PERS PLAN 1

Actual Contribution Rates:	Employer	Employee
January through June 2021	12.97%	6.00%
July through December 2021	10.25%	6.00%

For the years ended December 31, 2021 and 2020, the District's actual contributions to the plan were $36,500 and $30,900, respectively.

PERS PLAN 2/3

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

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

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

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% 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 Unfunded Actuarial Accrued Liability (UAAL) and an administrative expense that is currently set at 0.18%. 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 2021 were as follows:

PERS PLAN 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2021	12.97%	7.90%
July through December 2021	10.25%	6.36%
Employee PERS Plan 3		varies

For the years ended December 31, 2021 and 2020, the District's actual contributions to the plans were $9.9 million and $10.3 million, respectively.

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

At December 31, 2021 and 2020, the District reported a total net pension liability (asset) of ($61.5) million and $27.4 million, respectively, for its proportionate share of the net pension liabilities as follows:

(amounts in thousands)	Liability 2021	Liability 2020
PERS 1	$ 6,552	$ 18,699
PERS 2/3	$ (68,087)	$ 8,733

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

	Proportionate Share 12/31/21	Proportionate Share 12/31/20	Change in Proportion
PERS 1	.536512%	.529644%	.006868%
PERS 2/3	.683495%	.682794%	.000701%

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, 2021, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2020, with update procedures used to roll forward the total pension liability to the measurement date.

PENSION EXPENSE

During 2021, the Commission took board action which resulted in the District applying regulatory accounting to recognize pension expense in the amount of the required employer contributions in order to align the recognition of expense with the recovery of contributions through rates. For the years ended December 31, 2021 and 2020, the District recognized pension expense as follows:

(amounts in thousands)	Pension Expense 2021	Pension Expense 2020
PERS 1	$ 37	$ 190
PERS 2/3	9,891	886
TOTAL	$ 9,928	$ 1,076

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2021 and 2020, 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 2021	Deferred Inflows of Resources 2021	Deferred Outflows of Resources 2020	Deferred Inflows of Resources 2020
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	7,271	-	104
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	1,806	-	2,110	-
TOTAL	$ 1,806	$ 7,271	$ 2,110	$ 104

PERS PLAN 2/3

(amounts in thousands)	Deferred Outflows of Resources 2021	Deferred Inflows of Resources 2021	Deferred Outflows of Resources 2020	Deferred Inflows of Resources 2020
Differences between expected and actual experience	$ 3,307	$ 834	$ 3,126	$ 1,094
Net difference between projected and actual investment earnings on pension plan investments	-	56,905	-	443
Changes of assumptions	99	4,835	124	5,965
Changes in proportion and differences between contributions and proportionate share of contributions	210	375	260	448
Contributions subsequent to the measurement date	3,043	-	3,438	-
TOTAL	$ 6,659	$ 62,949	$ 6,948	$ 7,950

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
2022	$ (120)	$ (12,543)
2023	(1,765)	(14,563)
2024	(1,669)	(13,933)
2025	(1,911)	(15,035)
2026	-	(246)
Thereafter	-	30
Total	$ (5,465)	$ (56,290)

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, 2022.

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 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the 2013-2018 Demographic Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** *2.75% total economic inflation; 3.5% salary inflation*
- **Salary increases:** *In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.*
- **Investment rate of return:** *7.4%*

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

Discount Rate. The discount rate used to measure the total pension liability for all PERS plans was 7.4%. To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the assumptions described in OSA's certification letter within the DRS CAFR, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

Long-Term Expected Rate of Return. OSA selected a 7.4% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMAs 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, 2021, 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%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
	100%	

SENSITIVITY OF NET PENSION LIABILITY

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

(amounts in thousands)	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 11,162	$ 6,552	$ 2,532
PERS 2/3	$ (19,397)	$ (68,087)	$ (108,184)

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 $9,750 or up to a maximum of $13,000 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2021 and 2020, were $2.7 million and $2.5 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

PLAN DESCRIPTION

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

BENEFITS PROVIDED

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

EMPLOYEES COVERED BY BENEFIT TERMS

At December 31, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	-
Active Employees	774
Total	795

CONTRIBUTIONS

The District's subsidy of the cost of 2021 and 2020 premiums for eligible retired plan members and their spouses amounted to $95,000 and $75,000, respectively. Plan members receiving benefits contributed 80% and 80% of the premium costs for the years 2021 and 2020, 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.

NET OPEB ASSET

As of December 31, 2021 and 2020, the retiree medical plan was fully funded. The District's net OPEB asset was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. Actuarial update procedures were used to roll forward the service cost and the total OPEB liability to the December 31, 2021, measurement date.

ACTUARIAL ASSUMPTIONS

The total OPEB liability in the September 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3.0%
Salary increases	3.75%
Discount rate	4.0%
Healthcare cost trend rates	A healthcare trend is not used in the valuation as retiree premiums are assumed to be age-adjusted and changes in the District's subsidy are solely dependent on inflation.

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

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

Fund Type	% of Total Portfolio	Expected Long-Term Real Rate of Return
Domestic Equity	33%	3.8%
Foreign Equity	19%	5.4%
Fixed Income	41%	(1.9%)
Real Estate	6%	2.6%
3 Month Treasury Bills	1%	(2.3%)
	100%	

DISCOUNT RATE

The discount rate used to measure the total OPEB liability was 4.0%. Based on expected 5% long-term rate of return on the OPEB plan's assets, the fiduciary net position was only projected to be available to make projected OPEB payments for plan participants through 2048. Therefore, the expected long-term rate of return on the plans assets has been blended with the December 31, 2021, rate of 2.06% in the 20-year General Obligation Municipal Bond Index published by Bond Buyer.

CHANGES IN THE NET OPEB (ASSET)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a+b)
Balances at 1/1/2021	$ 1,059,528	$ (1,667,242)	$ (607,714)
Changes for the year:			
Service cost	37,981	-	37,981
Interest	39,627	-	39,627
Differences between expected and actual income	-	(79,030)	(79,030)
Change in assumptions	(78,368)		(78,368)
Experience (Gain)/Loss	174,005		174,005
Contributions - retirees	396,530	(396,530)	-
Net investment income	-	(79,459)	(79,459)
Benefit payments	(534,238)	534,238	-
Administrative expense	-	18,401	18,401
Net changes	35,537	(2,380)	33,157
Balances at 12/31/2021	$ 1,095,065	$ (1,669,622)	$ (574,557)

Sensitivity of the net OPEB asset to changes in the discount rate. The following presents the net OPEB asset of the District, as well as what the District's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (3.0%) or 1-percentage-point higher (5.0%) than the current discount rate:

	1% Decrease (3%)	Current Discount Rate (4%)	1% Increase (5%)
Net OPEB (asset)	$ (507,025)	$ (574,557)	$ (638,772)

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

For the years ended December 31, 2021 and 2020, the District recognized OPEB expense of $(46,911) and $(16,655), respectively. At December 31, 2021 and 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2021	2020	2021	2020
Differences between expected and actual experience	$ 234,034	$ 84,977	$ -	$ -
Changes of assumptions	-	-	125,821	61,275
Net difference between actual and projected earnings	25,236	50,473	210,332	231,126
Total	$ 259,270	$ 135,450	$ 336,153	$ 292,401

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

Year ended December 31:	
2022	$ (39,641)
2023	(64,877)
2024	(31,394)
2025	(4,680)
2026	11,126
Thereafter	52,583

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rock Island hydroelectric production facility. The outstanding bond issues are secured by a pledge of the net revenues of the project. The 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. Revenue bonds used to finance the Rocky Reach hydroelectric facility were repaid in full during 2020, therefore the Rocky Reach project is no longer subject to separate accounting requirements. Summary financial information as of, and for the years ended, December 31, 2021 and 2020, for the Rock Island project and December 31, 2020 for the Rocky Reach project 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)	Rock Island 2021	Rocky Reach 2020	Rock Island 2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets	$ 4,819	$ 9,424	$ 6,275
Restricted assets – current	7,132	3,087	8,948
Total current assets	11,951	12,511	15,223
Utility plant, net	498,646	284,378	455,539
Restricted assets – noncurrent	99,653	24,431	93,619
Other assets	39,677	5,719	18,658
Deferred outflows of resources	4,058	2,483	4,294
Total assets and deferred outflows of resources	$ 653,985	$ 329,522	587,333
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities	$ 46,702	$ 14,627	45,381
Long-term debt	320,947	85,936	310,029
Other liabilities	18,501	23,402	24,606
Total liabilities	386,150	123,965	380,016
Deferred inflows of resources	43,756	2,783	29,015
Net Position:			
Net investment in capital assets	341,852	284,038	283,982
Restricted	100,601	17,884	92,025
Unrestricted	(218,374)	(99,148)	(197,705)
Total net position	224,079	202,774	178,302
Total liabilities, deferred inflows of resources and net position	$ 653,985	$ 329,522	$ 587,333

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rock Island 2021	Rocky Reach 2020	Rock Island 2020
Operating revenues	$ 134,941	$ 88,438	$ 124,513
Less:			
Operating expenses	62,507	59,050	53,582
Depreciation and amortization	12,217	9,857	11,387
Operating income	60,217	19,531	59,544
Other expense	22,396	7,997	22,136
Income before capital contributions and interfund transfers	37,821	11,534	37,408
Capital contributions	569	-	527
Special Items – regulatory accounting pensions	7,270	-	-
Interfund transfers	117	(381)	(360)
Change in net position	45,777	11,153	37,575
Total net position – beginning of year	178,302	191,621	140,727
Total net position – end of year	$ 224,079	$ 202,774	$ 178,302

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rock Island 2021	Rocky Reach 2020	Rock Island 2020
Net cash provided (used) by:			
Operating activities	$ 71,476	$ 24,461	$ 67,585
Capital and related financing activities	(73,841)	(37,530)	(106,694)
Investing activities	5,939	10,361	12,439
Net increase/(decrease)	3,574	(2,708)	(26,670)
Beginning cash and cash equivalents	2,352	3,591	29,022
Ending cash and cash equivalents	$ 5,926	$ 883	$ 2,352

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, 2021 and 2020, 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, 2021	$ -	$ 495	$ 1,607	$ 47
Claims accrued	-	675	17,556	1,212
Claims paid	-	(766)	(18,098)	(1,124)
Claims Liability as of December 31, 2021	$ -	$ 404	$ 1,065	$ 135

(amounts in thousands)	Property & Liability	Workers' Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2020	$ -	$ 611	$ 1,568	$ 41
Claims accrued	-	710	16,106	1,055
Claims paid	-	(826)	(16,067)	(1,049)
Claims Liability as of December 31, 2020	$ -	$ 495	$ 1,607	$ 47
Commercial Insurance Deductible as of December 31, 2021 and 2020	Up to $2,000,000 depending on line of coverage	$500,000 per incident	$300,000 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 and do not expire until June 2054. The District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation and the Yakama Nation are signatories to the HCPs. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs satisfy the District's obligations for hydro project operations under the ESA for these species and in addition, protect other anadromous salmon including sockeye salmon, summer/fall Chinook and coho salmon. Collectively, these five species are known as the "Plan Species." In addition to the ESA, the HCPs are also intended to satisfy the projects' obligations for all Plan Species under the Federal Power Act, the Fish and Wildlife Coordination Act, the Essential Fish Habitat provisions of the Magnuson-Stevens Fishery Conservation and Management Act, the Pacific Northwest Electric Power Planning and Conservation Act and Title 77 RCW of the State of Washington.

The District's commitments under the HCPs include projects and programs to improve fish passage, to provide capacity for and fund hatchery operations and to contribute annual funding for the protection and restoration of tributary habitat, which when combined and successfully achieved culminates in obtaining the desired HCP outcome of No Net Impact (NNI). In February 2013, the District submitted its first 10-year comprehensive progress reports for Rock Island and Rocky Reach projects documenting the progress toward meeting NNI. The successful achievement of combined adult and juvenile project survival standards for spring migrants, necessary funding and capacity improvements for hatchery operations and annual contributions to the tributary habitat fund resulted in a determination by the HCP Coordinating Committee (designated decision body) that the District had met the obligations of the HCPs to warrant approval of NNI status. The District is responsible 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. Additionally, the Mid-Columbia Recovery Unit Implementation Plan (RUIP), in support of the Bull Trout Recovery Plan, was finalized in September 2015. The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS's biological opinion on potential effects of the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. The plan for Rocky Reach 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. To date, no additional consultation has been required for the projects.

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

ASSET MANAGEMENT PROGRAM

The District's capital improvement programs include large projects at Rock Island Dam for replacement of generators and turbines in the first powerhouse, refurbishment of generators and turbines in the second powerhouse, and replacement of the bridge crane and refurbishment of the gantry crane at the second powerhouse. The District has committed by contract to fulfill these programs between 2023 and 2031. The contractually committed amount on the future work to be performed on these major capital programs is approximately $143.2 million as of December 31, 2021.

The District also has contractual commitments relating to other significant capital improvement projects including upgraded building facilities and construction of a new comprehensive Service Center. As of December 31, 2021, commitments total approximately $79.8 million and will be fulfilled during 2022 and 2023.

In addition, the District has contractual commitments relating to large projects at Rocky Reach Dam for turbine repairs expected to be completed in late 2024. As of December 31, 2021, the remaining contractual commitments for this work totals approximately $11.3 million.

POWER MARKETING

As of December 31, 2021, the District had entered into forward block contracts obligating it to deliver approximately 4,075,000 MWh of energy at various times during each of the years in the period 2022-2024. The District expects to receive approximately $184.2 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 2022-2033, in exchange for approximately $574.7 million.

The District has committed to purchase approximately 2,259,000 MWh of energy at a cost of approximately $101.3 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, 2021, the District's share of bond principal was $1.5 million and was not to exceed $1.9 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

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

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

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

CLAIMS AND LITIGATION

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

NOTE 13: SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION SERVICES

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

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

(amounts in thousands)	2021	2020
Operating revenues		
Wholesale fiber services	$ 7,208	$ 6,653
Fiber leasing	870	900
Intradistrict revenues	3,260	3,009
Total operating revenues	11,338	10,562
Operating expenses		
Administrative and general	2,092	1,782
Repairs and maintenance	1,974	2,704
Other operating	5,165	3,548
Depreciation expense	3,825	3,575
Total operating expense	13,056	11,609
Operating loss	(1,718)	(1,047)
Other income	525	439
Net loss before capital contributions	(1,193)	(608)
Capital contributions	86	112
Special Item – regulatory accounting – pensions	1,238	-
Interfund transfers	5,200	4,300
Change in net position	$ 5,331	$ 3,804

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2021 and 2020:

(amounts in thousands)	2021	2020
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 28,464	$ 24,507
Utility plant, net and other assets	56,960	52,372
Total assets	85,424	76,879
Deferred outflows of resources	365	424
Total assets and deferred outflows of resources	$ 85,789	$ 77,303
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 3,329	$ 2,614
Deferred inflows of resources	3,153	713
Net position	79,307	73,976
Total liabilities, deferred inflows of resources and net position	$ 85,789	$ 77,303

The District's capital investment in telecommunications plant and equipment, net of retirements, for 2021 and 2020 was $5.6 million and $5.1 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2021, and 2020, respectively, was $109.5 million and $103.9 million. The capital investment, as well as cumulative net losses, was funded by interfund transfers.

PERS PLAN 1

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

(dollars in thousands)	2021	2020	2019	2018	2017
Proportion of the net pension liability	.536512	.529644	.547288%	.546415%	.543040%
Proportionate share of the net pension liability	$ 6,552	$ 18,699	$ 21,045	$ 24,403	$ 25,768
Covered-employee payroll	$ 316	$ 240	$ 237	$ 342	$ 448
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	2,073.42%	7,791.25%	8,879.75%	7,135.38%	5,751.79%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%

PERS PLAN 2/3

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

(dollars in thousands)	2021	2020	2019	2018	2017
Proportion of the net pension liability	.683495%	.682794%	.701021%	.689768%	.688436%
Proportionate share of the net pension liability(asset)	$ (68,087)	$ 8,733	$ 6,809	$ 11,777	$ 23,920
Covered-employee payroll	$ 84,741	$ 80,057	$ 78,421	$ 74,348	$ 69,866
Proportionate share of the net pension liability(asset) as a percentage of its covered-employee payroll	(80.35%)	10.91%	8.68%	15.84%	34.24%
Plan fiduciary net position as a percentage of the total pension liability	120.29%	97.22%	97.77%	95.77%	90.97%

PERS PLAN 1

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 37	$ 31	$ 31	$ 44	$ 53	$ 50	$ 64	$ 70	$ 74	$ 75
Contributions in relation to the contractually required contribution	(37)	(31)	(31)	(44)	(53)	(50)	(64)	(70)	(74)	(75)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 316	$ 240	$ 237	$ 342	$ 448	$ 447	$ 630	$ 765	$ 913	$ 1,047
Contributions as a percentage of covered-employee payroll	11.57%	12.89%	12.66%	12.87%	11.83%	11.18%	10.21%	9.21%	8.11%	7.20%

PERS PLAN 2/3

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 9,891	$ 10,322	$ 10,073	$ 9,469	$ 8,328	$ 7,276	$ 6,539	$ 5,428	$ 4,575	$ 3,943
Contributions in relation to the contractually required contribution	(9,891)	(10,322)	(10,073)	(9,469)	(8,328)	(7,276)	(6,539)	(5,428)	(4,575)	(3,943)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 84,740	$ 80,057	$ 78,421	$ 74,348	$ 69,866	$ 65,077	$ 64,259	$ 58,959	$ 56,186	$ 54,778
Contributions as a percentage of covered-employee payroll	11.67%	12.89%	12.84%	12.74%	11.92%	11.18%	10.18%	9.21%	8.14%	7.20%

SCHEDULE OF CHANGES IN NET OPEB ASSET AND RELATED RATIOS

Fiscal Year End Date	Fiduciary Net Position (a)	Total OPEB Liability (b)	Net OPEB (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Net OPEB as a Percentage of Covered Payroll ((b – a) / c))
12/31/21	$ 1,669,622	$ 1,095,065	$ (574,557)	152%	80,594,132	(0.71)%
12/31/20	1,667,242	1,059,528	(607,714)	157%	77,351,848	(0.79)%
12/31/19	1,493,009	979,400	(513,609)	152%	74,917,044	(0.69)%
12/31/18	1,265,976	862,908	(403,068)	147%	63,455,719	(0.64)%
12/31/17	1,371,296	820,150	(551,146)	167%	61,162,139	(0.90)%
12/31/16	1,493,891	1,030,417	(463,474)	145%	58,951,459	(0.79)%
12/31/15	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/14	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/13	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/12	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%

THIS PAGE INTENTIONALLY LEFT BLANK

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2021, with comparative totals for December 31, 2020

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2021	2020
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 88,984	$ -	$ -	$ (956)	$ 88,028	$ 73,366
Wholesale sales	91,286	134,793	11,867	274,908	7,176	-	(195,407)	324,623	255,179
Other operating revenues	234	148	1,062	42,866	-	26,079	(40,196)	30,193	24,977
	91,520	134,941	12,929	406,758	7,176	26,079	(236,559)	442,844	353,522
OPERATING EXPENSES									
Purchased power and water	-	-	-	271,270	-	-	(192,148)	79,122	41,191
Generation	63,404	61,940	6,855	-	-	-	(17,271)	114,928	100,216
Utility services	-	-	-	86,092	-	-	(25,169)	60,923	57,416
Other operation and maintenance	-	-	-	-	-	19,396	(1,971)	17,425	16,145
Taxes	1,168	567	98	9,719	-	-	-	11,552	10,054
Depreciation and amortization	10,066	12,217	1,993	17,329	-	5,868	-	47,473	45,942
	74,638	74,724	8,946	384,410	-	25,264	(236,559)	331,423	270,964
OPERATING INCOME	16,882	60,217	3,983	22,348	7,176	815	-	111,421	82,558
OTHER INCOME (EXPENSE)									
Interest on long-term debt	-	(9,740)	-	(45)	(11,545)	-	-	(21,330)	(24,126)
Interest on intersystem loans	(8,674)	(13,165)	(153)	-	21,992	-	-	-	—
Amortization of regulatory assets – debt issuance costs	-	(255)	-	-	(377)	-	-	(632)	(704)
Investment income	803	3,055	142	5,103	1,053	1,138	-	11,294	13,708
Federal subsidy income	-	-	-	-	-	-	-	-	200
Other	(617)	(2,291)	(1,134)	4,888	2,893	(960)	-	2,779	(295)
	(8,488)	(22,396)	(1,145)	9,946	14,016	178	-	(7,889)	(11,217)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND TRANSFERS	8,394	37,821	2,838	32,294	21,192	993	-	103,532	71,341
CAPITAL CONTRIBUTIONS	-	569	-	6,258	-	-	-	6,827	5,225
SPECIAL ITEM – Regulatory accounting pensions	7,235	7,270	916	11,006	-	-	-	26,427	-
INTERFUND TRANSFERS	2,128	117	4,419	(6,664)	-	-	-	-	-
CHANGE IN NET POSITION	17,757	45,777	8,173	42,894	21,192	993	-	136,786	76,566
TOTAL NET POSITION Beginning of year	202,774	178,302	81,836	566,250	138,061	21,755	-	1,188,978	1,112,412
TOTAL NET POSITION End of year	$ 220,531	$ 224,079	$ 90,009	$ 609,144	$ 159,253	$ 22,748	$ -	$ 1,325,764	$1,188,978

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, 2021 and 2020

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2021	2020
CURRENT ASSETS									
Cash and cash equivalents	$ 430	$ 463	$ 454	$ 16,247	$ 833	$ 1,595	$ -	$ 20,022	$ 10,527
Investments	1,353	1,457	1,427	51,106	2,622	5,017	-	62,982	127,279
Accounts receivable, net	1,708	2,101	23	35,231	-	2,172	-	41,235	29,580
Accrued interest receivable	114	233	17	656	180	85	-	1,285	1,526
Materials and supplies	5,774	-	-	11,808	-	118	-	17,700	14,749
Prepayments and other	1,370	538	97	1,125	-	13	-	3,143	2,173
Current portion of regulatory assets	29	27	-	51	2,865	6	-	2,978	2,978
	10,778	4,819	2,018	116,224	6,500	9,006	-	149,345	188,812
RESTRICTED ASSETS – CURRENT									
Cash and cash equivalents	596	1,721	1	37	-	480	-	2,835	1,176
Investments	1,875	5,411	-	117	-	1,512	-	8,915	14,177
	2,471	7,132	1	154	-	1,992	-	11,750	15,353
TOTAL CURRENT ASSETS	13,249	11,951	2,019	116,378	6,500	10,998	-	161,095	204,165
UTILITY PLANT									
In service, at original cost	657,010	687,394	121,924	648,770	-	131,624	-	2,246,722	2,134,139
Construction work in progress	6,349	137,974	108	20,411	-	92,242	-	257,084	206,188
Less-accumulated depreciation	(379,656)	(326,722)	(37,420)	(298,739)	-	(81,465)	-	(1,124,002)	(1,086,787)
	283,703	498,646	84,612	370,442	-	142,401	-	1,379,804	1,253,540
RESTRICTED ASSETS – NONCURRENT									
Cash and cash equivalents	2,006	3,742	-	473	425	392	-	7,038	3,351
Investments	37,374	95,911	-	7,582	14,448	11,652	-	166,967	225,298
	39,380	99,653	-	8,055	14,873	12,044	-	174,005	228,649
OTHER ASSETS									
Deferred relicensing costs	-	3,099	-	-	-	-	-	3,099	369
Net pension asset	17,937	19,901	2,131	28,118	-	-	-	68,087	-
Long-term receivables, net	-	-	-	205	-	-	-	205	247
Long-term investments	5,136	5,530	5,416	193,982	9,951	19,044	-	239,059	289,267
Regulatory assets, net	58	1,953	8	25,181	8,218	-	-	35,418	37,056
Derivative instrument asset	-	6,032	-	-	-	-	-	6,032	8,037
Other	1	3,162	-	10,063	-	577	(9,985)	3,818	770
	23,132	39,677	7,555	257,549	18,169	19,621	(9,985)	355,718	335,746
TOTAL ASSETS	359,464	649,927	94,186	752,424	39,542	185,064	(9,985)	2,070,622	2,022,100
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	1,587	-	-	747	-	-	2,334	3,314
Pensions	2,235	2,471	265	3,494	-	-	-	8,465	9,058
Other post-employment benefits	-	-	-	-	-	259	-	259	135
	2,235	4,058	265	3,494	747	259	-	11,058	12,507
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 361,699	$ 653,985	$ 94,451	$ 755,918	$ 40,289	$ 185,323	$ (9,985)	$ 2,081,680	$2,034,607

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, 2021 and 2020

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2021	2020
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 11,990	$ 32,896	$ 439	$ 787	$ (2,200)	$ -	$ -	$ 43,912	$ 36,418
Current portion of unearned wholesale power sales	758	781	-	12,934	637	-	-	15,110	15,078
Accounts payable	3,343	15,254	243	17,454	35	19,519	-	55,848	50,317
Accrued taxes	1,288	679	102	2,195	-	589	-	4,853	4,571
Accrued interest	-	-	-	16	4,411	-	-	4,427	8,028
Intersystem payables (receivables)	(1,466)	(2,980)	(794)	13,326	-	(8,086)	-	-	–
Accrued vacation and other	58	72	4	105	-	17,797	-	18,036	17,398
	15,971	46,702	(6)	46,817	2,883	29,819	-	142,186	131,810
LONG-TERM DEBT									
Revenue bonds and notes payable	-	159,151	-	6,176	250,590	-	-	415,917	534,227
Intersystem loans payable (receivable)	101,423	194,692	(6,971)	(39,776)	(381,576)	132,208	-	-	–
Less-current maturities	(11,990)	(32,896)	-	(787)	2,200	-	-	(43,473)	(35,972)
	89,433	320,947	(6,971)	(34,387)	(128,786)	132,208	-	372,444	498,255
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	6,024	6,201	-	88,800	5,068	-	(9,985)	96,108	110,072
Net pension liability	1,726	1,915	205	2,706	-	-	-	6,552	27,432
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	8,976	-	-	-	-	8,976	9,194
Other liabilities	-	1,135	-	-	-	-	-	1,135	970
	17,000	18,501	9,181	91,506	5,068	-	(9,985)	131,271	166,168
TOTAL LIABILITIES	122,404	386,150	2,204	103,936	(120,835)	162,027	(9,985)	645,901	796,233
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,032	-	-	-	-	-	6,032	8,037
Pensions	18,504	20,517	2,199	29,000	-	-	-	70,220	8,054
Regulatory liabilities	260	17,207	39	13,838	1,871	212	-	33,427	33,013
Other post -employment benefits	-	-	-	-	-	336	-	336	292
	18,764	43,756	2,238	42,838	1,871	548	-	110,015	49,396
TOTAL NET POSITION	220,531	224,079	90,009	609,144	159,253	22,748	-	1,325,764	1,188,978
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 361,699	$ 653,985	$ 94,451	$ 755,918	$ 40,289	$ 185,323	$ (9,985)	$ 2,081,680	$2,034,607

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

COMBINING SCHEDULE OF CASH FLOWS

For the year ended December 31, 2021,
with comparative totals for December 31, 2020

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 90,876	$ 133,987	$ 12,927	$ 384,700	$ 6,539	$ 23,996	$ (236,715)	$ 416,310	$ 338,885
Payments to suppliers	(34,225)	(32,541)	(3,507)	(320,754)	35	(16,792)	236,715	(171,069)	(118,708)
Payments to employees	(31,460)	(29,970)	(3,890)	(41,724)	-	(1,227)	-	(108,271)	(109,794)
Net cash provided by operating activities	25,191	71,476	5,530	22,222	6,574	5,977	-	136,970	110,383
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(11,465)	(55,963)	(222)	(30,842)	-	(65,652)	-	(164,044)	(115,013)
Additions to pooled assets	89	77	11	-	-	(177)	-	-	-
Proceeds from sale of plant	32	51	-	150	-	197	-	430	113
Proceeds of newintersystem loans	36,000	54,000	-	-	(90,000)	-	-	-	-
Proceeds of new third party debt	-	-	-	-	-	-	-	-	164,649
Principal (paid) received on debt & intersystem loans	(30,866)	(51,052)	(8,452)	(18,840)	(71,062)	59,580	-	(120,692)	(112,364)
Interest (paid) received on debt & intersystem loans	(8,674)	(13,165)	(153)	(47)	6,846	-	-	(15,193)	(11,196)
Capital contributions	-	42	-	5,780	-	-	-	5,822	4,645
Other	2,146	(7,831)	(1,128)	(2,608)	(851)	87	-	(10,185)	(5,547)
Net cash (used in) capital and related financing activities	(12,738)	(73,841)	(9,944)	(46,407)	(155,067)	(5,965)	-	(303,962)	(74,713)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	(11,095)	2,727	661	32,892	143,780	346	-	169,311	(98,402)
Interest on investments	791	3,047	141	5,121	1,587	1,148	-	11,835	14,170
Long-term receivables	-	-	-	42	-	-	-	42	79
Other, net	-	165	3,874	(4,418)	1,024	-	-	645	(99)
Net cash provided by (used in) investing activities	(10,304)	5,939	4,676	33,637	146,391	1,494	-	181,833	(84,252)
NET CASH INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	2,149	3,574	262	9,452	(2,102)	1,506	-	14,841	(48,582)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	883	2,352	193	7,305	3,360	961	-	15,054	63,636
CASH & CASH EQUIVALENTS, END OF YEAR	$ 3,032	$ 5,926	$ 455	$ 16,757	$ 1,258	$ 2,467	$ -	$ 29,895	$ 15,054

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

COMBINING SCHEDULE OF CASH FLOWS (CONT.)

For the year ended December 31, 2021, with comparative totals for December 31, 2020

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2021	2020
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	$ 16,882	$ 60,217	$ 3,983	$ 22,348	$ 7,176	$ 815	$ -	$ 111,421	$ 82,558
Depreciation and amortization	10,066	12,217	1,993	17,329	-	5,868	-	47,473	45,942
(Increase) decrease in operating assets:									
Accounts receivable, net	(45)	(333)	(2)	(9,192)	-	(2,083)	-	(11,655)	165
Materials and supplies	(1,440)	-	-	(1,515)	-	4	-	(2,951)	(1,347)
Prepayments	(732)	(79)	1	(160)	-	-	-	(970)	(151)
Net OPEB asset	-	-	-	-	-	33	-	33	(94)
Other	-	117	-	4,062	-	-	-	4,179	3,574
Deferred outflows of resources	-	-	-	-	-	(124)	-	(124)	(1,089)
Increase (decrease) in operating liabilities:									
Current portion unearned wholesale power sales	16	16	-	-	-	-	-	32	50
Accounts payable	280	255	(54)	1,130	35	1,676	-	3,322	1,012
Accrued taxes	(26)	27	10	227	-	44	-	282	399
Accrued vacation and other	805	(323)	(401)	857	-	(300)	-	638	1,079
Unearned wholesale revenue	(615)	(638)	-	(12,934)	(637)	-	-	(14,824)	(14,585)
Customer deposits	-	-	-	70	-	-	-	70	(3)
Net pension liability	-	-	-	-	-	-	-	-	(423)
Deferred inflows of resources	-	-	-	-	-	44	-	44	(6,704)
Net cash provided by operating activities	$ 25,191	$ 71,476	$ 5,530	$ 22,222	$ 6,574	$ 5,977	$ -	$ 136,970	$ 110,383
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ (1,369)	$ (423)	$ (3)	$ (164)	$ -	$ 4,098	$ -	$ 2,139	$ 2,479
Capital contributions	-	-	-	9,288	-	-	-	9,288	368
Amortization of regulatory assets	-	-	-	3,202	-	-	-	3,202	2,838

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

THIS PAGE INTENTIONALLY LEFT BLANK

Bond Series	Trustee/Registrar/Paying Agent
Consolidated System:	
2008B	U.S. Bank Trust Company, N.A.
2011C	U.S. Bank Trust Company, N.A.
2020A, B &C	U.S. Bank Trust Company, N.A.
Columbia River-Rock Island Hydroelectric System:	
1997A	PUD No. 1 of Chelan County

ADDRESSES:

Public Utility District No. 1
of Chelan County
PO Box 1231
Wenatchee, WA 98807
(509) 663-8121

U.S. Bank Trust Company, N.A.
PD-WA-T7CT
1420 Fifth Ave., 7th Floor
Seattle, WA 98101
(206) 340-4750

U.S. Bank Trust Company, N.A.
Bondholder 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.

CONTACTS FOR FINANCIAL INFORMATION

Kelly M. Boyd
Chief Financial/Risk Officer
e-mail: kelly.boyd@chelanpud.org

Heather J. Irelan
Director-Treasury/Treasurer
e-mail: heather.irelan@chelanpud.org

Diane L. Syria
Director-Accounting/Controller
e-mail: diane.syria@chelanpud.org

Stacey G. Jagla
Internal Audit Manager
e-mail: stacey.jagla@chelanpud.org

Additional information can be found on our website at ***www.chelanpud.org.***

Bond & Disclosure Counsel
Orrick, Herrington & Sutcliffe LLP, Seattle, WA

DISTRIBUTION DIVISION
Five Largest Local Wholesale Purchasers and Major Retail Customers 2021 (1) (Unaudited)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	306	$ 6,234	1.6%
Stemilt Growers Inc	Agriculture	59	1,264	0.3%
Diamond Foundry Inc.	Manufacturing	46	1,725	0.4%
Salcido Enterprises LLC	High Density Load	44	1,447	0.4%
Keyes Fibre	Manufacturing	32	665	0.2%
		487	$ 11,335	2.9%

1. Excludes non-firm sales for resale and off-sytem retail sales.

DISTRIBUTION DIVISION
Statement of Revenues and Expenses ($000) (Unaudited)

Calendar Year	2017	2018	2019	2020	2021
Operating revenues					
Retail	$ 53,468	$ 51,069	$ 66,358	$ 66,966	$ 81,095
Resale	209,412	238,946	207,731	175,226	263,573
Other (1)	37,513	34,433	39,679	36,062	42,811
Total	300,393	324,448	313,768	278,254	387,479
Operating expenses (2)	265,007	289,623	281,002	285,382	362,956
Net operating revenue (loss)	35,386	34,825	32,766	(7,128)	24,523
Other income	6,013	8,566	11,642	9,697	18,465
Net revenue (3)	$ 41,399	$ 43,391	$ 44,408	$ 2,569	$ 42,988

1. The Distribution Division includes transmission revenue under transmission agreements.
2. Includes contractual purchases and nonfirm purchases for resale.
3. Prior to capital contributions and interfund transfers, and special items.

DISTRIBUTION DIVISION

Energy Requirements, Resources and Power Costs (Unaudited)

Calendar Year	2017	2018	2019	2020	2021
Requirements (000 MWh) (1)					
Retail	1,748	1,657	1,979	1,960	2,008
Other (2)	8,348	9,423	8,355	8,668	6,066
	10,096	11,080	10,334	10,628	8,074
Resources (000 MWh)					
Rocky Reach System	2,872	2,931	2,363	2,806	2,719
Rock Island System	1,401	1,378	1,155	1,287	1,255
Lake Chelan System	461	371	355	406	434
Other purchases (2)(3)	5,362	6,400	6,461	6,129	3,666
	10,096	11,080	10,334	10,628	8,074
Purchased Power Costs ($000)					
Rocky Reach System	$ 48,955	$ 47,297	$ 34,990	$ 43,347	$ 44,567
Rock Island System	51,601	52,370	59,065	62,240	67,514
Lake Chelan System	7,909	12,826	10,768	11,084	11,917
Other purchases (3)	85,488	103,645	96,728	83,655	146,776
	$ 193,953	$ 216,138	$ 201,551	$ 200,326	$ 270,774
Average cost ($/MWh) (4)	$ 19	$ 20	$ 20	$ 19	$ 34

1. Net of timing differences and losses.

2. In 2021, change in reporting methodology to exclude non-District merchant activity that flows through the District's control area.

3. 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. In 2020, 2019 Other purchases were restated to correct an entry error.

4. 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.

DISTRIBUTION DIVISION
Customers, Energy Sales and Revenues (Unaudited)

Calendar Year	2017	2018	2019	2020	2021
Customers					
Retail:					
Residential	38,161	38,783	39,453	40,152	40,574
Commercial	6,316	6,383	6,446	6,443	6,458
Industrial	29	30	30	33	34
High density load/cryptocurrency	19	20	13	10	8
Irrigation, frost, lighting (1)	5,600	5,602	5,592	5,572	2,222
Interdepartmental	555	563	612	603	605
Total retail customers	50,680	51,381	52,146	52,813	49,901
Resale: (2)	86	88	88	37	41
Total customers	50,766	51,469	52,234	52,850	49,942
Energy Sales (000 MWh)					
Retail:					
Residential	881	810	879	844	855
Commercial	499	465	478	432	451
Industrial	239	243	247	235	238
High density load/cryptocurrency	68	77	81	91	111
Irrigation, frost, lighting	40	40	36	44	44
Interdepartmental	21	22	20	21	23
Total retail sales	1,748	1,657	1,741	1,667	1,722
Other End-Use:					
Off-system sales (3)	-	-	238	293	286
Resale:					
Douglas County PUD	324	329	265	288	306
Other – firm/slice	2,165	2,443	1,745	2,030	1,998
Other – non-firm/block/preschedule/real time (4)	6,046	6,585	6,008	5,981	3,773
Total sales for resale	8,535	9,357	8,018	8,299	6,077
Total energy sales	10,283	11,014	9,997	10,259	8,085
Revenue ($000)					
Retail:					
Residential	$ 27,944	$ 26,019	$ 27,985	$ 27,123	$ 28,837
Commercial	17,004	15,976	16,438	15,194	16,413
Industrial	4,896	5,001	5,072	4,890	5,196
High density load/cryptocurrency	1,504	1,781	1,845	2,756	3,944
Irrigation, frost, lighting	1,499	1,492	1,465	1,577	1,658
Interdepartmental	621	800	600	603	722
Total retail revenue	53,468	51,069	53,405	52,143	56,770
Other End-Use:					
Off-system sales (3)	-	-	12,953	14,822	24,325
Resale:					
Douglas County PUD	5,353	5,013	4,031	5,250	6,234
Other – firm/slice	78,934	81,287	70,241	69,245	73,376
Other – non-firm/block/preschedule/real time	118,431	142,731	120,525	87,797	171,028
Amortization of Deferred Power Sales (5)	6,694	9,914	12,934	12,934	12,934
Total resale revenue	209,412	238,945	207,731	175,226	263,572
Other revenue (6)	37,513	34,433	39,679	36,062	42,811
Total revenue	$ 300,393	$ 324,447	$ 313,768	$ 278,253	$ 387,478

1. In 2021, the District changed the method of counting street light customers.

2. In 2020, change in reporting methodology to only include counterparties with purchases during the calendar year.

3. In 2019, the District began providing power under a five-year agreement to Microsoft's Puget Sound campuses. Microsoft is the only off-system customer.

4. In 2021, change in reporting methodology to exclude non-District merchant activity that flows through the District's control area.

5. Includes power sales payments received in advance which were deferred and are being recognized as revenue over the term of the contracts.

6. Includes transmission, real-time agreement and environmental attribute revenues.

HYDROELECTRIC SYSTEMS

Power Cost and Net Power Delivered ($000 other than cost in $/MWh) (Unaudited)

Calendar Year	2017	2018	2019	2020	2021
Rocky Reach System					
Operating expenses	$ 56,801	$ 58,643	$ 53,765	$ 59,050	$ 64,572
Depreciation and amortization	17,299	12,313	9,988	9,857	10,066
Interest expense	11,377	10,144	9,134	8,455	8,674
Other (revenue) expense (1)	(1,344)	(585)	(13,569)	(627)	(420)
Total power cost (2)	$ 84,133	$ 80,515	$ 59,318	$ 76,735	$ 82,892
Net power delivered (000 MWh)	5,862	5,986	4,795	5,687	5,523
Cost in $/MWh	$ 14	$ 13	$ 12	$ 13	$ 15
Plant factor (3)	51%	53%	42%	50%	49%
Availability factor	79%	78%	68%	70%	79%
Average river flow (000 CFS) (4)	131	125	87	113	99
Rock Island System					
Operating expenses	$ 44,426	$ 47,089	$ 51,306	$ 53,582	$ 62,507
Depreciation and amortization	10,322	10,790	11,292	11,387	12,217
Interest expense	22,610	21,485	23,055	22,809	22,905
Other (revenue) expense (1)	(815)	(316)	(1,729)	(1,273)	(1,226)
Total power cost (2)	$ 76,543	$ 79,048	$ 83,924	$ 86,505	$ 96,403
Net power delivered (000 MWh)(5)	2,820	2,782	2,347	2,649	2,552
Cost in $/MWh	$ 27	$ 28	$ 36	$ 33	$ 38
Plant factor (3)	51%	50%	43%	48%	46%
Availability factor	59%	59%	55%	58%	62%
Lake Chelan System					
Operating expenses	$ 5,587	$ 10,364	$ 5,558	$ 6,619	$ 6,953
Depreciation and amortization	1,902	1,902	1,940	1,954	1,993
Interest expense	700	626	545	458	153
Other (revenue) expense (1)	(48)	(77)	(95)	(80)	(70)
Total power cost (2)	$ 8,141	$ 12,815	$ 7,948	$ 8,951	$ 9,029
Net power delivered (000 MWh)	461	371	355	406	434
Cost in $/MWh	$ 18	$ 35	$ 22	$ 22	$ 21
Plant factor (3)	89%	72%	69%	79%	84%
Availability factor	97%	75%	96%	97%	90%
Combined Hydro Cost in $/MWh	$ 18	$ 19	$ 20	$ 20	$ 22

1. Includes other income and expenses that impact power cost. Excludes one-time regulatory pension adjustment.
2. Non-GAAP, may not be comparable with similarly titled other District metrics.
3. Net power delivered as a percentage of rated capacity for the year.
4. Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).
5. After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.

CONSOLIDATED SYSTEM

Operating Results and Debt Service Coverage ($000) (Unaudited)
As defined in the Master Resolution 07-13067

Calendar Year	2017	2018	2019	2020	2021
Operating revenues (1)					
Retail	$ 60,088	$ 57,993	$ 73,333	$ 74,188	$ 88,984
Resale	236,087	269,808	237,669	205,048	293,951
Other	58,020	56,466	64,266	61,844	70,007
Total	354,195	384,267	375,268	341,080	452,942
Less: Operating expenses					
Purchased power and water	(194,261)	(216,487)	(202,726)	(200,761)	(271,270)
Other operation & maintenance (2)	(85,434)	(95,010)	(97,809)	(107,268)	(112,343)
Taxes	(7,011)	(6,645)	(8,192)	(8,244)	(9,817)
Depreciation & amortization	(19,912)	(21,083)	(22,294)	(24,698)	(25,190)
Operating income	47,577	45,042	44,247	109	34,322
Adjustments					
Add back depreciation & amortization	19,912	21,083	22,294	24,698	25,190
Add investment income	4,746	7,892	10,066	9,119	7,436
Add principal and interest payments from Rocky Reach & Rock Island	45,196	37,233	38,665	39,050	42,417
Total adjustments	69,854	66,208	71,025	72,867	75,043
Net revenues	117,431	111,250	115,272	72,976	109,365
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 117,431	$ 111,250	$ 115,272	$ 72,976	$ 109,365
Available funds (3)	$ 313,579	$ 423,839	$ 372,232	$ 383,264	$ 291,009
Annual debt service	$ 28,236	$ 26,493	$ 25,983	$ 25,490	$ 29,121
Debt service coverage					
With available funds (min 1.25x)	15.26	20.20	18.76	17.90	13.75
Without available funds (min 1.00x)	4.16	4.20	4.44	2.86	3.76

1. Includes revenues of the District's Distribution Division; Financing Facilities 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. Non GAAP, may not be comparable with similarly titled other District metrics.

3. 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, 2021 ($000) (Unaudited)

Date of Bonds	Final Maturity Date	Series of Bonds	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Principal Amount Outstanding	Accumulated for Retirement (3)
CONSOLIDATED SYSTEM							
6/3/2009	7/1/2032	2008B	$ 92,880	$ 34,630	$ 52,725	$ 40,155	$ 972
11/9/2011	7/1/2026	2011C	164,425	96,400	108,165	56,260	5,351
5/1/2020	7/1/2039	2020A	109,630	–	–	109,630	6,176
5/1/2020	7/1/2034	2020B	10,965	–	–	10,965	640
5/1/2020	7/1/2032	2020C	13,230	–	–	13,230	772
Total Consolidated System			391,130	131,030	160,890	230,240	13,911
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	280,615	280,615	159,151	32,046
Total Rock Island System			135,944	280,615	280,615	159,151	32,046
Grand Total			$ 527,074	$ 411,645	$ 441,505	$ 389,391	$ 45,957

1. *Amount of serial bonds matured as of December 31, 2021 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, 2021 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, 2021 ($000) (Unaudited)

	Net Loans Outstanding (1)
Rocky Reach System	$ 101,423
Rock Island System	194,692
Consolidated System (2)	85,461
	$ 381,576

1. *Represents aggregate principal amounts of Consolidated System Bonds and other available funds allocated to intersystem and interfund loans, net of prior loan repayments, adjustments for unamortized original issue discounts, issuance costs and amounts payable to and (receivable) from other systems.*
2. *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, 2021 (Unaudited)

	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service					
Year	Principal (2)	Interest	Total	Rocky Reach	Rock Island	Total Loan Payments
2022	$ 20,000,000	$ 9,131,457	$ 29,131,457	$ 18,125,986	$ 20,448,081	$ 38,574,067
2023	22,335,000	8,435,500	30,770,500	18,058,190	20,440,747	38,498,937
2024	23,035,000	7,463,000	30,498,000	18,000,591	19,966,571	37,967,162
2025	25,810,000	6,430,572	32,240,572	15,858,161	19,514,482	35,372,643
2026	17,254,260	5,267,799	22,522,059	14,176,225	19,455,371	33,631,596
2027	5,210,000	4,260,244	9,470,244	12,756,806	19,453,574	32,210,380
2028	6,155,000	3,999,744	10,154,744	11,334,763	20,073,603	31,408,366
2029	2,155,000	3,691,994	5,846,994	10,005,435	15,252,239	25,257,674
2030	16,615,000	3,584,244	20,199,244	8,593,481	16,564,170	25,157,651
2031	14,300,000	2,753,494	17,053,494	7,184,868	16,049,050	23,233,918
2032	42,906,025	1,722,072	44,628,097	5,931,896	14,911,881	20,843,777
2033	4,255,000	1,180,900	5,435,900	5,350,632	14,859,165	20,209,797
2034	3,715,375	968,150	4,683,525	4,326,197	14,398,919	18,725,116
2035	3,645,000	750,400	4,395,400	2,638,751	13,427,904	16,066,655
2036	3,690,000	604,600	4,294,600	1,388,256	13,268,747	14,657,003
2037	3,750,000	457,000	4,207,000	289,191	13,004,724	13,293,915
2038	1,653,583	307,000	1,960,583	289,191	12,189,329	12,478,520
2039	-	-	-	146,202	8,792,292	8,938,494
2040	-	-	-	-	6,734,004	6,734,004
2041	-	-	-	-	6,629,707	6,629,707
2042	-	-	-	-	6,350,711	6,350,711
2043	-	-	-	-	6,079,457	6,079,457
2044	-	-	-	-	1,429,015	1,429,015
Total	$ 216,484,243	$ 61,008,170	$ 277,492,413	$ 154,454,822	$ 319,293,743	$ 473,748,565

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 or as may be applied to final payments. 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.*

CONSOLIDATED SYSTEM

Unrestricted and Restricted Fund Balances as of December 31, 2021 ($000) (Unaudited)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 71,385	$ 666	$ 1,454	$ 16,186	$ 89,691
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	72,158	-	-	-	72,158
Other unrestricted funds (5)	67,792	6,631	11,952	9,470	95,845
Total unrestricted funds	261,334	7,297	13,406	25,656	307,694
Restricted funds (6)	8,209	1	14,873	14,036	37,119
Total fund balances	$ 269,544	$ 7,298	$ 28,279	$ 39,692	$ 344,813

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	2017	2018	2019	2020	2021
Original system net generation	463	425	334	406	440
Second powerhouse net generation	2,194	2,245	1,942	2,112	1,960
Total generation	2,657	2,670	2,276	2,518	2,400
Plus:					
Wanapum encroachment (1)	464	451	398	450	472
Net interchange	39	9	8	-	-
System losses by contract	(17)	(18)	(17)	(18)	(18)
Less:					
Canadian Treaty Power (2)	(158)	(156)	(156)	(155)	(154)
Rocky Reach Encroachment (3)	(165)	(174)	(162)	(146)	(148)
Total net power delivered (4)	2,820	2,782	2,347	2,649	2,552
Percentage allocations (5)					
Power Purchasers	51%	51%	51%	51%	51%
District	49%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,419	1,404	1,194	1,362	1,298
District	1,401	1,378	1,153	1,287	1,254
Total sales (4)	2,820	2,782	2,347	2,649	2,552
Net peaking capability	629	629	629	629	629
Availability factor	59%	59%	55%	58%	62%
Plant factor (6)	51%	50%	43%	48%	46%

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% 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) (Unaudited)

Calendar Year	2017	2018	2019	2020	2021
Rock Island System	$ 27	$ 28	$ 36	$ 33	$ 38
Bonneville Power (1)	$ 40	$ 42	$ 42	$ 41	$ 41

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	2017	2018	2019	2020	2021
Rock Island System	$ 33,001	$ 46,622	$ 28,504	$ 52,982	$ 55,209
Projected Calendar Year (1)	**2022**	**2023**	**2024**	**2025**	**2026**
Rock Island System	$ 54,555	$ 80,959	$ 42,294	$ 68,797	$ 50,358

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) (Unaudited)

Actual Calendar Year	2017	2018	2019	2020	2021
Operating revenues:					
Power Purchasers	$ 52,391	$ 53,209	$ 60,152	$ 63,483	$ 68,763
District	50,324	51,093	57,745	60,957	66,029
Total revenues from sales	102,715	104,302	117,897	124,440	134,792
Other operating revenues	143	147	127	73	148
Total operating revenues	102,858	104,449	118,024	124,513	134,940
Total operating expenses (1)	54,748	57,879	62,598	64,969	74,724
Net operating revenues	48,110	46,570	55,426	59,544	60,216
Other expense	(23,036)	(21,939)	(22,079)	(22,136)	(22,396)
Net revenues	25,074	24,631	33,347	37,408	37,820
Add back:					
Depreciation	10,322	10,790	11,292	11,387	12,217
Interest expense	22,610	21,485	23,054	22,809	22,905
Amortization of deferred debt costs	265	264	263	258	255
Other (2) (3)	1,409	1,264	1,265	1,895	1,231
Deduct:					
Amortization of deferred power sales revenue	(669)	(690)	(892)	(765)	(781)
Cash available for debt service	59,011	57,744	68,329	72,992	73,647
Annual debt service:					
Rock Island Bonds	23,420	22,973	23,438	23,398	22,685
Intersystem loans	15,981	15,123	18,780	20,278	22,678
Total debt service requirement	39,401	38,096	42,218	43,676	45,363
Cash available after payment of all debt service	$ 19,610	$ 19,648	$ 26,111	$ 29,315	$ 28,284
Coverage of total debt service	1.50	1.52	1.62	1.67	1.62

1. Includes depreciation 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.

3. In 2021, updated presentment of 2017-2020 to include noncash items previously excluded.

ROCK ISLAND SYSTEM

Debt Service Requirements as of December 31, 2021 (Unaudited)

	Bonds		Intersystem Loans (1)		
Twelve Months Ending Dec. 31	Estimated Debt Service	Estimated Principal Retirements (2)(3)	Estimated Debt Service	Estimated Principal Retirements	Total Estimated Debt Service
2022	$ 22,685,000	$ 22,685,000	$ 20,448,081	$ 9,097,715	$ 43,133,081
2023	22,685,000	22,685,000	20,440,747	9,629,176	43,125,747
2024	22,685,000	22,685,000	19,966,571	9,717,112	42,651,571
2025	22,685,000	22,685,000	19,514,482	9,835,451	42,199,482
2026	22,685,000	22,685,000	19,455,371	10,357,365	42,140,371
2027	22,685,000	22,685,000	19,453,574	10,968,636	42,138,574
2028	22,685,000	22,685,000	20,073,603	12,237,168	42,758,603
2029	12,549,000	12,549,000 (4)	15,252,239	8,030,240	27,801,239
2030	-	-	16,564,170	9,930,062	16,564,170
2031	-	-	16,049,050	9,991,755	16,049,050
2032	-	-	14,911,881	9,447,055	14,911,881
2033	-	-	14,859,165	9,942,364	14,859,165
2034	-	-	14,398,919	10,064,141	14,398,919
2035	-	-	13,427,904	9,670,619	13,427,904
2036	-	-	13,268,747	10,059,161	13,268,747
2037	-	-	13,004,724	10,366,454	13,004,724
2038	-	-	12,189,329	10,144,107	12,189,329
2039	-	-	8,792,292	7,312,614	8,792,292
2040	-	-	6,734,004	5,639,669	6,734,004
2041	-	-	6,629,707	5,795,530	6,629,707
2042	-	-	6,350,711	5,781,447	6,350,711
2043	-	-	6,079,457	5,768,788	6,079,457
2044	-	-	1,429,015	1,385,525	1,429,015
Total	$ 171,344,000	$ 171,344,000	$ 319,293,743	$ 201,172,154	$ 490,637,743

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 accreated 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.*

THIS PAGE INTENTIONALLY LEFT BLANK

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 U.S. Securities and Exchange Commission (the "SEC"). None of the power purchasers, the District or the underwriter makes representation as to, nor have they attempted to verify, the accuracy or completeness of such information or the absence of material adverse changes in such information as of the date hereof or as of any subsequent date and assumes no responsibility therefor.

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 in 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of a liquefied natural gas (LNG) facility at the Port of Tacoma, Washington. 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 the Canada Pension Plan Investment Board (CPPIB), the British Columbia Investment Management Corporation, the Alberta Investment Management Corporation, Ontario Municipal Employee Retirement System and PGGM Vermogensbeheer B.V. In July 2021, CPPIB entered into an agreement to sell its shares to Macquarie Washington Clean Energy Investment, L.P., and Ontario Teachers' Pension Plan Board. The sale was approved by the Washington Commission and closed on February 22, 2022. All of Puget Energy's common stock is indirectly owned by Puget Holdings. Puget Energy and PSE are collectively referred to herein as the "Company." The Company's principal executive offices are located at 355 110th Ave NE, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company's Internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and the 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, and be the clean energy provider of choice for its customers. Puget Energy does not have any employees and PSE had approximately 3,185 full-time employees as of December 31, 2021.

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, 2021, PSE had approximately 1.2 million electric customers, and over 900,000 natural gas customers.

Additional Information

The Company is a publicly traded company and provides periodic reports on its financial and operating condition with the SEC.

ALCOA CORPORATION

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 bauxite, alumina, and aluminum products.

Alcoa has direct and indirect ownership of approximately 28 operating locations across nine countries. Alcoa's operations consist of three reportable segments: Bauxite, Alumina, and Aluminum. The Bauxite and Alumina segments primarily consist of a series of affiliated operating entities held in an unincorporated joint venture between Alcoa and an Australian company. The Aluminum segment consists of the Company's aluminum smelting and casting along with the majority of the energy production business.

Aluminum, as an element, is abundant in Earth's crust, but a multi-step process is required to make aluminum metal. Aluminum metal is produced by refining alumina oxide from bauxite into alumina, which is then smelted into aluminum and can be cast and rolled into may shapes and forms. Aluminum is a commodity traded on the London Metal Exchange ("LME") and priced daily. Alumina, an intermediary product, is subject to market pricing through 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.

Separation Transaction

On November 1, 2016, Alcoa Inc. ("ParentCo") separated into two standalone, publicly-traded companies, Alcoa Corporation and what has subsequently been renamed Howmet Aerospace Inc. Alcoa Corporation was formed for the purpose of holding ParentCo's Bauxite, Alumina, Aluminum, Cast Products and Energy businesses, as well as ParentCo's rolling mill operations in Warrick, Indiana, and 25.1% interest in the Ma'aden Rolling Company in Saudi Arabia. Alcoa Corporation entered into certain agreements with Parent Co to implement the legal and structural separation between the two companies, to govern the relationship between Alcoa Corporation and ParentCo after the completion of the Separation Transaction and allocate between Alcoa Corporation and ParentCo various assets, liabilities and obligations, including, among other things, employee benefits, environmental liabilities, intellectual property, and tax-related assets and liabilities.

Additional Information

Alcoa is a publicly traded company and is obligated to provide periodic reports on its financial and operating condition with the SEC.

Photo by Dillon Swasey

Photo by Chelan County PUD Communications Dept.

Top: September sunrise near Peshastin Pinnacles State Park.

Inset: A 14-foot salmon spiral spans two floors of the newly renovated Discovery Center.

Bottom: Linemen make a connection in a pad mount transformer for a residential line extension near Leavenworth.

Photo by Chelan County PUD Communications Dept.

In March 2021, the first concrete foundation was poured for the PUD's new Service Center in Olds Station.

Photo by Chelan County PUD Communications Dept.

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

2021
Fast Facts

P.U.D.
CHELAN COUNTY

PUD created	1936
First service	1947

Average residential electric rate

(Cents/kWh)	3.4¢

Number of retail customers*

Electric	49,901
Water/sewer	6,983
Fiber end-users	20,159

District peak demand and date

487 MW	Dec. 27

Service line miles	1,880
Number of employees*	768

Power generation (MWh)

Rocky Reach	5.8 million
Rock Island	2.4 million
Lake Chelan	0.4 million

Generating units

Rocky Reach	11
Rock Island	18
Lake Chelan	2

Generator nameplate capacity (MW)

Rocky Reach	1,300
Rock Island	629
Lake Chelan	59

District revenue

Total	$442.8 million

Bond ratings*

Fitch Ratings	AA+
Standard & Poor's	AA+
Moody's Investors Service	Aa3

*As of Dec. 31, 2021

2021 ANNUAL REPORT

MISSION

To enhance the quality of life in Chelan County by providing sustainable, reliable utility services.

VISION/ CHALLENGE

In a rapidly changing utility environment, we will provide: **The best value for the most people for the longest time.**

OUR VALUES

SAFETY
Protect public and employee health and safety

STEWARDSHIP
Acting on behalf of customer-owners, protecting public resources entrusted to us

TRUSTWORTHINESS
Competence, integrity, respect, collaboration

OPERATIONAL EXCELLENCE
High-quality, innovative work execution through supporting personal accountability

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