INVESTING HERE

2016 ANNUAL REPORT
PUBLIC UTILITY DISTRICT NO. 1
OF CHELAN COUNTY

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

ABOUT US

Public Utility District No. 1 of Chelan County was created by a vote of the people in 1936 and delivered its first power in 1947. The PUD is governed by a locally elected five-member Board of Commissioners. The general manager uses the policies and guiding principles set by the commission to generate and deliver electricity from our three dams to utilities that serve customers across the Pacific Northwest as well as to more than 50,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Note: *The statements and information on pages 1-10 of the 2016 Annual Report are provided for general information only. They are not intended for, and should not be relied upon, for making investment decisions by current or prospective investors. Official statements can be found at the District's website, www.chelanpud.org.*

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

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

Our Values

Safety
Protect public and employee health and safety

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

Trustworthiness
Competence and integrity

Operational Excellence
High-quality innovative work execution

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Investing in the future

Investing Here is exactly what Chelan PUD is doing. Our 2015 strategic plan set an ambitious roadmap for the utility to deliver on its promise to improve the quality of life for Chelan County residents and to provide the best for the most for the longest period of time. 2016 was our first full year into the plan and as this report demonstrates, it was a year of many accomplishments.

STEVE WRIGHT

While the PUD statutorily may not engage in direct economic development efforts, there are many ways we can play a critical role in making sure our county is competitive when it comes to attracting new business and industry. We can be a partner in economic development efforts through investments such as the expansion of our world class fiber broadband services – we are on a course to reach 85-90 percent of the county with broadband availability; making public electric vehicle charging stations available to encourage and support clean transportation options; investing in our tremendous revenue-generating hydropower resources to ensure availability of clean, low cost, reliable power today and into the future; and investing in the technologies that help our employees be more efficient and productive.

"Keeping power rates low through prudent financial practices..."

Keeping power rates low through prudent financial practices and strategic investments is perhaps the single most effective way to encourage others to come to Chelan County and enjoy the public power benefits our community has known for more than 80 years.

Investing in local control

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

GARRY ARSENEAULT

CARNAN BERGREN

DENNIS BOLZ

ANN CONGDON

RANDY SMITH

STEVE MCKENNA
Commissioner-elect

Investing in strategy

Our Strategic Plan, developed with our customer-owners, guides everything we do. It's reviewed often and updated as conditions change. In 2016, PUD commissioners reaffirmed the three priorities and added context – listing them in order.

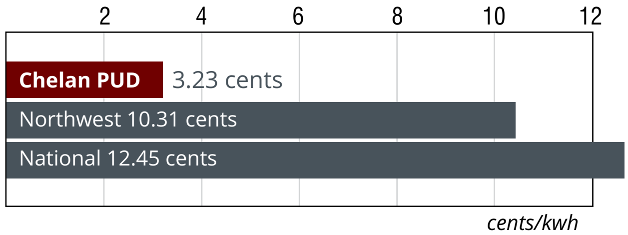
1. **Invest in core assets and people**
2. **Reduce debt**
3. **Continue Public Power Benefit as funds allow**

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

3.2¢

Average residential rate per kilowatt hour in 2016

No electric rate increase for **5 years**

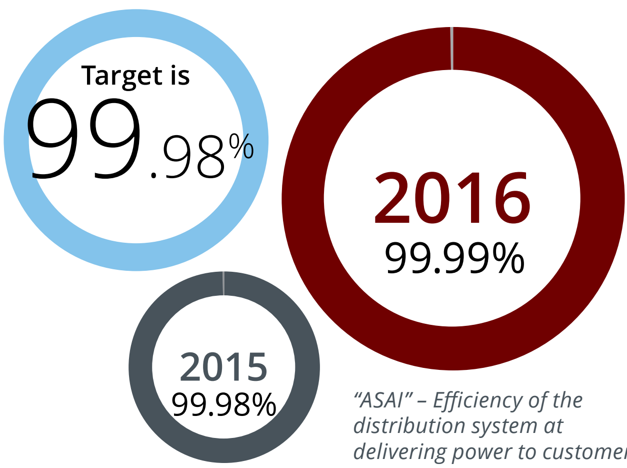


Bond ratings

Fitch Ratings	AA+, stable
Standard and Poor's	AA, stable
Moody's Investors Service	Aa3, stable

As of Dec. 31, 2016

Electric system reliability



"ASAI" – Efficiency of the distribution system at delivering power to customers

$7.7 million

Funds returned to the community in taxes

	2015	2016
State and local tax expense	$ 7,258,737	$ 7,689,129

50,207 Number of retail electric customers

14,060 Number of fiber end-user connections

6,492 Number of water/wastewater customers

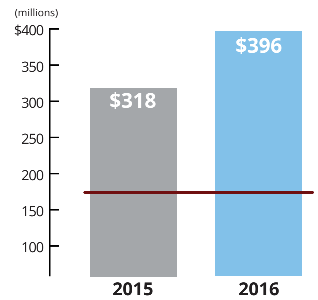
We measure the District's financial stability in **FOUR** ways. Chelan PUD **MET** or **EXCEEDED** targets for all four in 2016.

Target line

Financial liquidity

Target: Minimum of $175 million

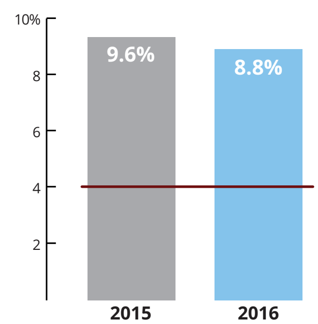
Represents cash reserves to cover risks and provide additional financial stability



Rate of return

Target: Greater than 4 percent

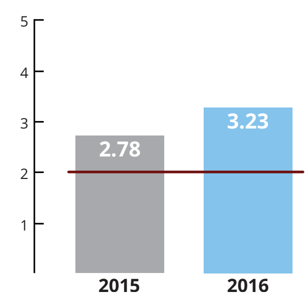
Provides income to replace assets over time and meet obligations in unusual conditions



Debt service coverage

Target: Greater than 2.0

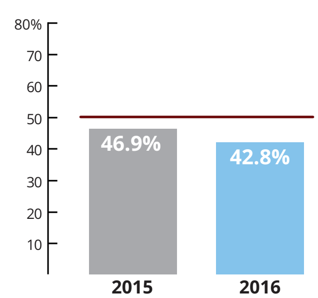
Demonstrates the ability to meet debt obligations even under unusual conditions



Debt ratio

Target: **Less than** 50 percent for 2016

Reflects the percentage of utility assets financed by debt



Bringing broadband to more of Chelan County

In 2016, construction launched on the Public Power Benefit project to expand access to the District's broadband network from 69 percent to 85-90 percent of Chelan County's homes and businesses in the next 10 years. **709** new locations got access.

On the existing wholesale network,

785 new connections

were made to bring internet, telephone and TV service offered by private providers.

Plus, PUD broadband crews finished a three-year project to make 1 gigabit service available across the network. The $3.8 million project finished ahead of schedule and under the $5.1 million budgeted.

45.1% Take Rate

Take Rate:
Percentage of lit premises with active service

14,060 ACTIVE CONNECTIONS

Putting our customers first

Responding to recreation trends and adding family cabins at **Lincoln Rock State Park** (under license terms for Rocky Reach Dam) and updating the group camp.

Installing **4 electrical vehicle (EV) chargers** and adding a 5th in 2017. EV advocates cover the "fuel" cost for **renewable hydropower** so customers and visitors can charge for free.

Working with Chelan-Douglas Land Trust and a PUD retiree and his wife to preserve and protect **26 unique acres** of sand dunes and natural area along the Apple Capital Loop Trail for public use in perpetuity.

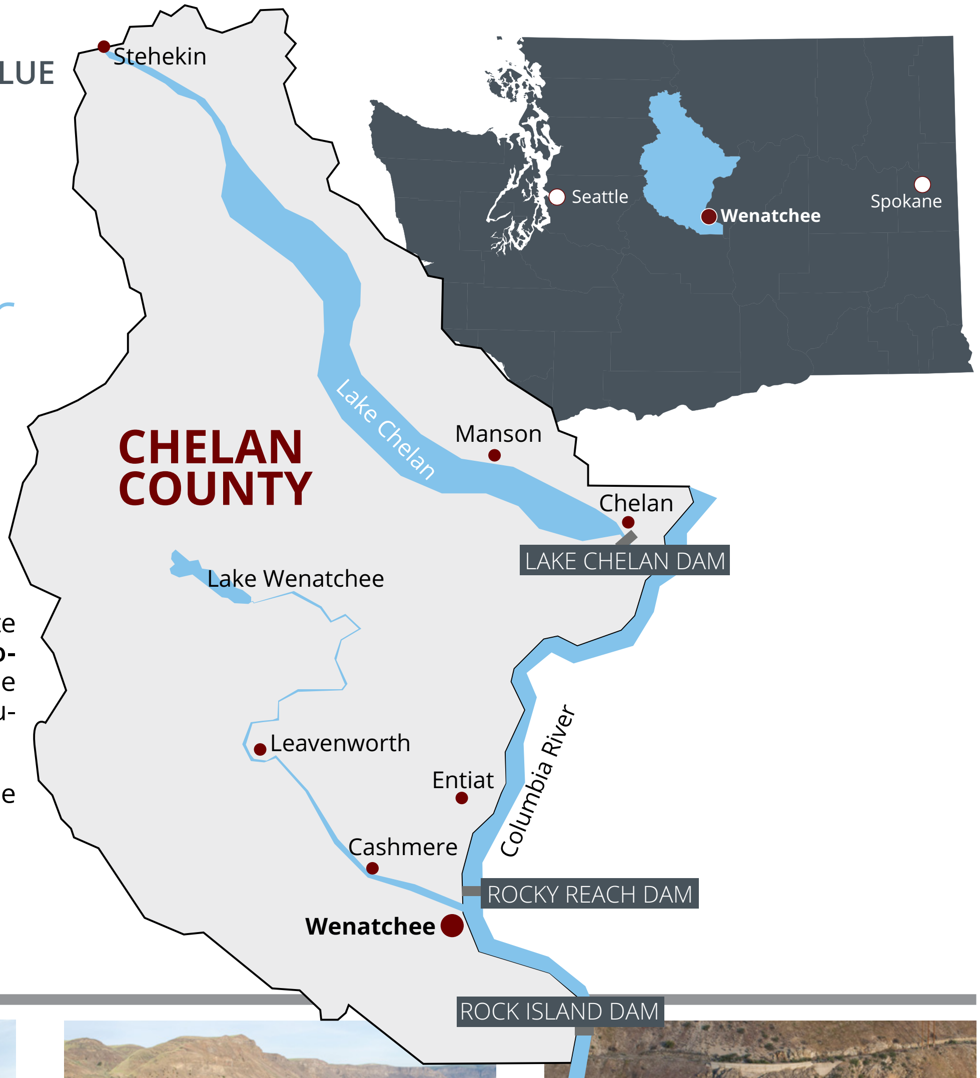
Continuing Public Power Benefit programs as funds allow, like the popular day-use pass to use at PUD parks managed by the state.

Recognizing a growing cryptocurrency industry and reaching out to the firms and the community to help us develop rates for high-density loads.

Hydropower is our most valuable asset

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

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



ROCKY REACH DAM

6.1 MILLION megawatt hours generated

11 generators

1,300 megawatt capacity*

Long-term repairs continued on the four biggest units to restore moveable turbine blade capability and rewind generators to extend operating life by at least 30 years. Plans call for completing the work by 2021. Our federal license to operate the dam runs through 2052.

ROCK ISLAND DAM

2.7 MILLION megawatt hours generated

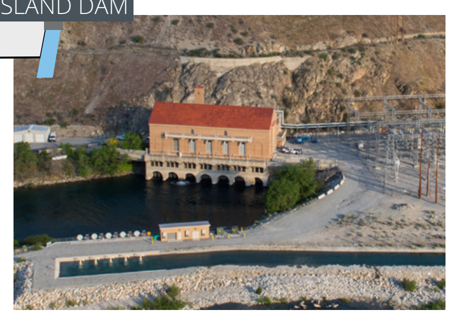
2 powerhouses

18 generators

(plus 1,000 kW house unit)

629 megawatt capacity*

After extensive analysis, PUD commissioners authorized modernizing four original units in Powerhouse 1, starting in 2018, after the 80-plus year-old units were taken out of service in early 2016 due to corrosion fatigue on the blades. Modernizing the 1950s-era units continued, with the third of those expected to return to service in 2017. Our federal license to operate the dam runs through 2028.



LAKE CHELAN DAM

.5 MILLION megawatt hours generated

2 generators

59 megawatt capacity*

Chelan PUD's retail distribution system buys all the electricity generated at the Chelan Falls powerhouse. Our federal license to operate the dam runs through 2056.

**Generator nameplate capacity*

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

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

Here are a few ways we measure our progress on being stewards of the incredible resources in our care.

SAVING ENERGY

In 2016, we helped customers save enough electricity to power **800 homes**. We invested **$3.2 million** in conservation incentives for Chelan County homes, businesses and industries.

We exceeded our compliance target to achieve **2.04 average megawatts** in energy savings.

And, our energy experts have worked with coworkers to cut power use at PUD headquarters by **55 percent** since 2007.

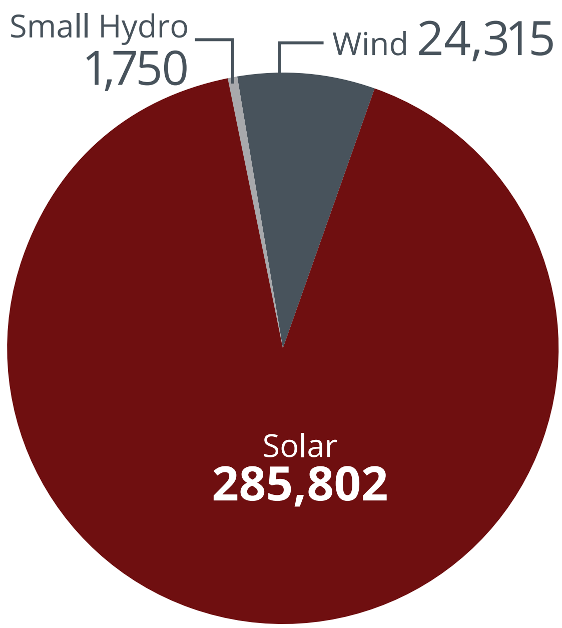
= 10 homes

Powering the future

Our SNAP - Sustainable Natural Alternative Power - program for customer-owned wind, solar and small hydro hit record generation for 2015-2016:

up by 26 percent.

Generation: 311,867 kWh
(kilowatt hours in year ending 3/31/16)



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

Going paperless

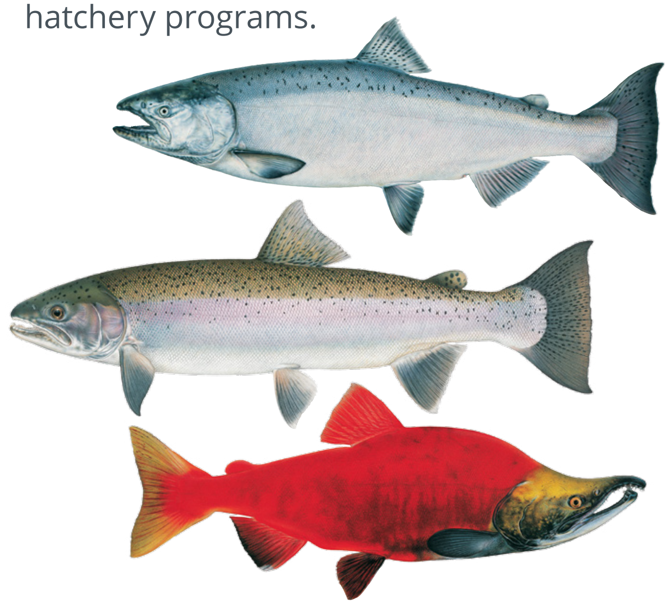
Powerpay

gives customers the convenience of getting their bill by email – and saves on paper and printing. Nearly 13,700 PUD customers were enrolled by the end of 2016.

About 23,700 customers get news about their PUD by email.

Protecting the environment

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



Illustrations by Joseph Tomelleri

Investing in the next generation

Middle school girls climbed a power pole, used drills and explored engines at the first **Pizza Pop 'n' Power Tools** to showcase careers in skilled trades needed to provide reliable utility service.

Our second bicultural & bilingual Discover Us! program attracted 100+ potential job seekers.

Rocky Reach Dam hosted the first **STEM Hydropower Academy** for high school and college students. They spent a week learning what it takes to make clean, renewable electricity.

Providing reliable electric service

Here are two of the many ways we track the quality of electric service for our customer-owners and how we compare with utilities across the country.

2016 results

.51
outages

"SAIFI" – The average number of times a customer had their service interrupted.
2015 U.S. Utility System Average Interruption Frequency Index (SAIFI) reported to Energy Information Administration was 2.87.

55.37
mins.

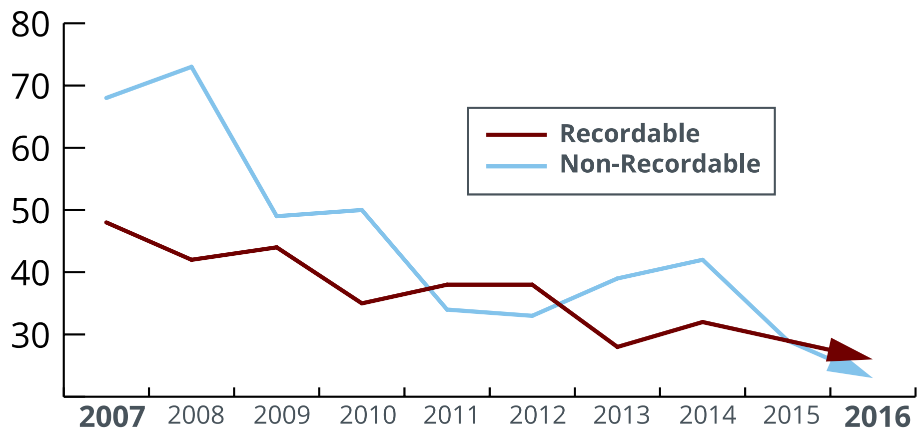
"SAIDI" - The average amount of time power was out if service was interrupted.
2015 U.S. Utility System Average Interruption Duration Index (SAIDI) reported to Energy Information Administration was 202.48.

Keeping people safe

Our human and organization performance approach:

Through continual learning, we constantly improve the defenses that protect us from the errors all of us can make.

District Injury/Illness Events



Recordable Typically means that medical treatment was needed

Non-Recordable Typically means that no assistance or at most first-aid only was needed

Connecting with our customers and community

3 million people visit our parks each year.

About **62,200** people came to Rocky Reach Visitor Center last year to see power being made, **look a salmon in the eye** and explore the park's 38 acres.

Being trustworthy means working with customers and the community on decisions such as where to put a new substation. In 2016, we hosted 22 meetings on possible locations for the equipment to serve future load in Leavenworth and on the north shore of Lake Chelan.

Report of Independent Auditors

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

We have audited the accompanying financial statements of Public Utility District No. 1 of Chelan County, Washington (the "District") which comprise the Statements of Net Position as of December 31, 2016 and December 31, 2015, and the related Statements of Revenues, Expenses and Changes in Net Position and of Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Chelan County, Washington as of December 31, 2016 and December 31, 2015, and the changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 and 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 72*, Fair Value Measurement and Application*, in 2016 and changed the manner in which they present certain fair value hierarchy disclosures related to investments. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP, 805 SW Broadway, Suite 800, Portland, OR 97205-3344
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com/us

Other Matters

Required Supplementary Information

The accompanying Management's Discussion and Analysis on pages 13 through 21 and the required supplementary information, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Contributions and Schedule of Funding Progress for Postretirement Health Benefits Program on page 56, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Combining Schedule of Revenues, Expenses and Changes in Net Position, of Assets and Deferred Outflows of Resources and Liabilities, Deferred Inflows of Resources and Net Position, and of Cash Flows on pages 57 through 61, as well as supplemental disclosures of telecommunication activities in Note 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplementary information presented as Continuing Disclosure on pages 64 through 78 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Portland, Oregon
April 20, 2017

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, 2016 and 2015. 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 ended 2016 with a positive change in net assets of $96 million, $20 million more than budget for the year. These strong operating results were achieved while continuing to meet strategic priorities to invest in utility assets and employees, pay down debt through regularly scheduled debt payments and continued Public Power Benefit projects. The clean, renewable benefits of the hydropower the District generates and sells on the wholesale market helped support revenue. A combination of higher revenues and lower expenses were the main reasons for the better than budgeted $96 million bottom-line results. The District exceeded all financial targets in 2016.

- While the District is still on track to achieve its financial objectives, there have been changes in the overall net revenue picture since the Strategic Plan was approved in 2015. The biggest change is due to the declining wholesale energy market impact on District revenues. Most of this impact occurs beyond five years into the future due to the District's power marketing hedging program that reduces revenue volatility. Newly planned investments due to the strategic plan and costs to repair turbines and generators have caused costs to moderately rise from when the Strategic Plan was adopted. Still the District projects positive net revenues for each of the next five years. To respond to declining net revenue, the District set priorities within its strategic plan focus areas. Reinvesting in assets and people is the highest priority, followed by debt reduction, followed by the Public Power Benefit Program.

- Long-term repairs continued on the four largest units at Rocky Reach dam to restore their moveable turbine blade capability. In addition, progress was made on rewinding all four of the generators for the same large units to extend the life of the equipment at least another 30 years. The District expects to complete the work on the first of the four units returning to full moveable blade operation by the end of 2017 and then proceed to the next unit for turbine repair. Rewind of the other three units is occurring prior to the scheduled turbine repair to optimize generation capability and reduce the outage duration. Based on the current schedule all work on the four units is expected to be complete by 2021. The District has confirmed insurance coverage for lost revenue and eligible repair expenditures on the turbines for two of the four units due to cracked servo rods; however, the extent of the coverage for the remaining two units will not be known until damage is confirmed following full disassembly. The repairs and the lost production time for these repairs are not expected to have an effect on District retail electric rates as the District has effective risk management plans in place. The hedging program, long-term contracts, insurance program and strong financial policies, have significantly reduced the overall impact from these type of events.

- The District's Board of Commissioners approved a recommendation to modernize the four original generating units B1-B4 at Rock Island Dam which were all taken out of service in early 2016, due to corrosion fatigue on the blades following 80 plus years of service. The decision came after the Board reviewed the results of comprehensive staff analysis and concluded the project met the strategic objective of investing in long-term assets that provide value to customer-owners. The benefits will include reliable operation of the units expected for another 50 years, more flexibility in hydro operations and environmental and fish protection benefits. In December after a competitive bid process, commissioners authorized staff to award a $42 million contract supporting an overall $64 million project budget to move forward with updated plans for modernization of Rock Island Dam units B1-B4. The contract includes a project schedule that returns three of the four units to service by mid-2019 and the fourth unit by late 2019, well in advance of the Habitat Conservation Plan (HCP) check-in starting in the spring of 2020. Additionally, work continued on the B5-B10 modernization project in 2016 with an expected return to service date of the third unit in 2017. That will be followed by the fourth unit to be completed before the B1-B4 construction begins in 2018. The remaining two units for the B5-B10 project are scheduled for modernization beginning in the fall of 2020 after the HCP check-in.

- The District continued its debt repayment plan and achieved a reduction in total debt outstanding of $22 million during 2016. Scheduled principal payments were made in June and July to achieve the net debt reduction goal in 2016 to meet customer-owner expectations and District financial objectives. These payments included a final payment of a Public Works Trust Fund loan. These repayments improve the District’s ability to cover its debt and continue to meet the District’s strategic plan financial goals of a debt ratio of less than 35-percent by 2019. Debt reduction is a top priority in the District’s strategic planning for long-term financial stability.

- Standard and Poor's (S&P) reaffirmed the AA stable rating on the District’s outstanding consolidated system, Rocky Reach and the Senior Rock Island bonds in 2016. The Rock Island Subordinate bonds have an AA- rating. The outlook on all ratings is stable. The rating agency reported the following factors that led to the rating: historical production costs that are very low and expected to remain highly competitive even in the event of below-average stream flow conditions, the projects’ strong operating performance and the flexibility from their multiple turbines, which together partially mitigate single asset risk, the ability to pass through 100% of its costs to off-takers which have signed take-or-pay contracts and the District’s ability to reassign or remarket surplus energy in the event of default by a contractual off-taker. The stable outlook reflects S&P’s view of the projects’ strong operating performance and low cost. Also in 2016, Moody's affirmed the Aa3 rating on the District’s outstanding revenue bonds with a stable outlook. The rating agency reported the rating is supported by the District’s strong liquidity position at more than 450 days cash on hand, robust risk management including ongoing hedging program and 40-percent debt reduction since 2009. The rating also reflects the District’s long-term exposure to wholesale power prices and hydrology risk, the District’s reliance on non-retail revenue to subsidize its retail business, and counterparty concentration with a below investment grade entity.

- District Commissioners approved a new electric rate for customers with energy intense loads, such as server farms and similar technology operations including bitcoin mining, in 2016. The rate structure is expected to cover the fair and reasonable costs of serving these rapidly growing businesses. The rate is effective January 1, 2017, and includes a transition period of up to five years for existing high density load (HDL) customers who can show they’ve made substantial investment and meet other criteria. Included is an upfront charge to offset the impacts from HDL customers on the District’s electric system capacity.

- District Commissioners agreed to assign the existing power contracts with Alcoa, Inc. for its Wenatchee smelter to a new entity, Alcoa Corporation after Alcoa, Inc. separated into two companies effective November 1, 2016. The new agreement provides additional financial protection and other assurances that go beyond what was in the original agreement. While no agreement is without risk, the District believes these actions provide fair protection against the increased risk of potential non-payment or bankruptcy as a result of Alcoa's decision to split. See Note 1 for more detail.
- Subsequent to year-end, the District entered into discussions with Alcoa Corporation to consider a contract amendment that would give Alcoa more time to decide whether to restart the Wenatchee Works aluminum smelter in return for a payment that would keep District customer-owners financially neutral. Under the current agreement, should the Wenatchee Works plant remain curtailed through June 2017, a $67 million deferred capacity reservation charge would become due. That deferred charge was specifically designed to encourage Alcoa to operate the plant. Alcoa has advised that, while improving, the current aluminum market does not support restart and they would like to work together on a plan that would preserve the restart option. Options being discussed include Alcoa paying a one-year portion of the deferred charge plus an additional amount in exchange for the one-year delay. A large portion of the deferred charge would be delayed until June of 2018. Other existing contract terms would remain in place. No decisions have been made, but Alcoa and the District have agreed to the shared principle that any amendment would have a neutral or positive impact on the District and its customer-owners.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the

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

The District's total net position increased by $96 million in 2016, despite the operating challenges of large unit repairs at Rocky Reach and Rock Island, demonstrating the effectiveness of risk management plans and strong financial policies. The increase is primarily due to continued strong operating results stemming from the District's hedging program, real-time agreement and long-term power sales contracts. The hedging program requires locking in predictable revenue through the sale of excess energy under both forward block transactions and slice contracts and is proving to be successful at providing rate stability and meeting financial goals. Other factors that contributed to the favorable results included expenses below budget combined with continued debt reduction that lowered interest expense.

Total net position increased by $102 million in 2015. Positive operating results driven by the District's hedging program, real-time agreement and long-term power sales contracts were partially offset by significant damages caused by regional wildfires and Rocky Reach large unit repairs.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2016	2015	2014*	Increase (Decrease) 2016 – 2015
Current assets	$ 120	$ 86	$ 166	$ 34
Net utility plant	1,082	1,062	1,067	20
Other non-current assets	462	430	374	32
Deferred outflows of resources	18	15	14	3
Total assets and deferred outflows of resources	1,682	1,593	1,621	89
Current liabilities	118	105	138	13
Long-term debt	559	584	673	(25)
Other liabilities	187	174	170	13
Total liabilities	864	863	981	1
Deferred inflows of resources	30	38	50	(8)
Net investment in capital assets	489	451	336	38
Restricted	160	162	155	(2)
Unrestricted	139	79	99	60
Total net position	$ 788	$ 692	$ 590	$ 96

(amounts in millions)	2016	2015	2014*	Increase (Decrease) 2016 – 2015
Operating revenues	$ 363	$ 370	$ 400	$ (7)
Less				
Operating expenses	246	236	282	10
Other (income) and expenses	25	37	34	(12)
Net income before capital contributions	92	97	84	(5)
Capital contributions	4	5	5	(1)
Change in net position	96	102	89	(6)
Total net position – beginning of year	692	590	558	102
Cumulative effect of change in accounting principle*	-	-	(57)	-
Beginning of year, as adjusted	692	590	501	102
Total net position – end of year	$ 788	$ 692	$ 590	$ 96

ASSETS

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

Current assets decreased by $80 million in 2015, primarily due to a combination of the District's aggressive debt repayment program combined with regularly scheduled long-term debt payments and the funding of capital assets out of cash reserves, partially offset by cash generated from the District's positive 2015 operating results. While short-term cash and investment balances were down, this was offset by the increase in long-term investments as a result of changes in investment strategies to optimize returns.

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

As of December 31, 2015, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3). Net utility plant decreased $5 million in 2015, reflecting additional investments in utility plant assets, including significant improvements and additions related to hydro parks, modernization at Rocky Reach and Rock Island and electric transmission and distribution system station equipment and services, which were more than offset by annual depreciation.

Other noncurrent assets, which includes noncurrent restricted assets and other assets, increased $32 million and $56 million in 2016 and 2015, respectively. The increase in 2016 was as a result of the lengthening of investment strategies. The increase in 2015 was primarily as a result of an increase in restricted cash and investment balances resulting from positive operating results and continued accumulation of capital recovery and debt repayment funds under the District's long-term power sales contracts. Capital recovery and debt repayment funds are expected to be used for future capital investment and debt repayment at the District's hydro projects.

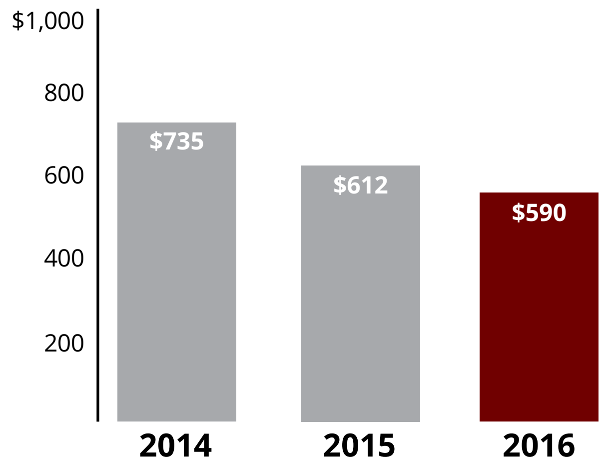
Deferred outflows of resources increased $3 million and $1 million in 2016 and 2015, respectively. The increase in both years was due to changes in the actuarial valuation of the Public Employees' Retirement System (PERS) collective net pension liability for PERS plans 1, 2 and 3 in which the District participates. The increases related to pensions were partially offset by the monthly amortization of losses on refunding debt.

LIABILITIES

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

Current liabilities decreased $33 million in 2015, primarily as a result of a decrease in the current portion of long-term obligations offset somewhat by an increase in accounts payable. The decrease in the current portion of long-term obligations is due primarily to changes in regularly scheduled repayments of bond principal on existing debt compared to the prior year. Accounts payable increased primarily due to higher accruals near the end of the year due to normal fluctuations in the amount and timing of billings from and subsequent payment to vendors.

Total Debt Outstanding
(amounts in millions)



During 2016, scheduled maturities of debt totaling $36 million were partially offset by accretion of interest on capital appreciation bonds resulting in a decrease in total debt outstanding of $22 million. Total debt outstanding decreased by $123 million during 2015 due to scheduled maturities of debt combined with an additional $66 million in accelerated principal payments. These reductions in total debt contributed to the $25 million and $89 million reduction in long-term debt in 2016 and 2015, respectively, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2016 or 2015.

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

Other liabilities increased by $13 million in 2016, primarily due to changes in the actuarial valuation of the PERS collective net pension liability for PERS plans administered by the Washington State Department of Retirement Systems in which the District participates.

Other liabilities increased by $4 million in 2015 due to changes in the actuarial valuation of the PERS collective net pension liability for PERS plans administered by the Washington State Department of Retirement Systems in which the District participates, partially offset by the normal amortization of unearned revenue related to the District's long-term power sales agreements. Amounts were previously received from power purchasers and are being recognized as revenue over the life of the agreements.

Deferred inflows of resources decreased $8 million and $12 million in 2016 and 2015, respectively, due to the District recording its proportionate share of the decrease in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems.

NET POSITION

Invested in capital assets, net of related debt, increased $38 million and $115 million in 2016 and 2015, respectively. The increase in 2016 reflects a reduction in debt primarily as a result of regularly scheduled repayments of bond principal on existing debt. The increase in 2015 reflects a reduction in debt primarily as a result of regularly scheduled repayments of bond principal, as well as $66 million in accelerated principal payments on existing debt.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position decreased $2 million in 2016 primarily due to the reduction of collateral held for credit purposes related to forward energy transactions. Restricted net position increased $7 million in 2015 primarily due to the accumulation of funds under long-term power sales contracts that are restricted for construction and debt reduction purposes.

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 2016, unrestricted net position increased $60 million due primarily to the retention of a portion of the District's positive earnings as unrestricted assets. The remaining earnings were deployed primarily for debt reduction and investment in capital assets. In 2015, unrestricted net position decreased $20 million due to having been deployed primarily for debt reduction and investment in capital assets.

REVENUES AND EXPENSES

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

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

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

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

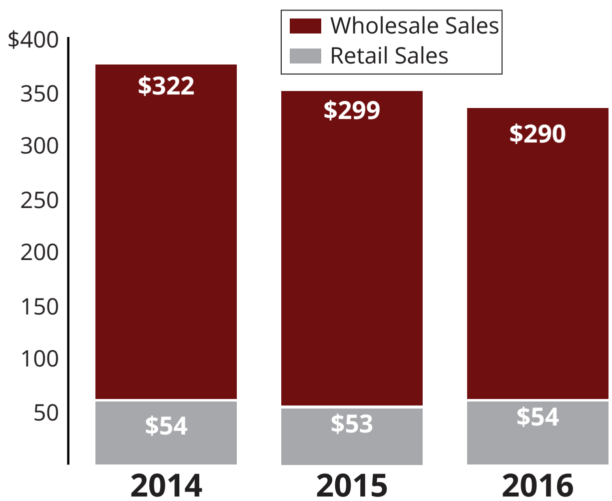
Wholesale sales decreased $23 million in 2015 compared to 2014 primarily due to a change in the method of reporting "booked-out" wholesale energy sales and purchases (agreement with counterparty to net settle prior to scheduling for delivery) from gross to net during 2015. Prior to 2015, booked-out transactions were reported on a gross basis. This decrease was somewhat offset by increases in slice contract sales and higher average sales prices on non-firm energy sales. During 2015, the District's hedging strategy was fully implemented with the laddering of slices, resulting in an increase in slice revenue, as well as a slight increase in the volume of sales combined with higher average sales prices.

Purchased power costs decreased $48 million in 2015 compared to 2014 due to a change in the method of reporting "booked-out" wholesale energy sales and purchases from gross to net during 2015. The impact to the District's change in net position is the same under both the gross and net approach of reporting these transactions.

In 2015, other income and expenses, which included net interest expense and income, increased by $3 million, primarily as a result of losses realized on the early retirement of bonds in April, partially offset by decreased interest on long-term debt due to declining debt balances combined with reduced average interest expense resulting from the repayment of debt balances at the highest interest rate.

Net income before capital contributions increased by $13 million in 2015 compared to 2014 primarily due to increased slice contract sales and receiving higher average prices on the District's wholesale sales of its surplus energy, combined with lower interest costs as a result of declining debt balances under the District's aggressive debt reduction plan. Capital contributions remained flat from 2014 to 2015.

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.

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Statements of Net Position

DECEMBER 31, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 23,405	$ 21,333
Investments	37,419	14,348
Accounts receivable, net	31,879	27,801
Accrued interest receivable	1,653	1,082
Materials and supplies	12,498	13,128
Prepayments and other	1,149	1,203
Current portion of regulatory assets	2,978	2,978
	110,981	81,873
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	3,486	2,717
Investments	5,573	1,826
	9,059	4,543
TOTAL CURRENT ASSETS	120,040	86,416
UTILITY PLANT		
In service, at original cost	1,970,190	1,944,395
Construction work in progress	58,473	31,516
Less-accumulated depreciation	(946,486)	(914,304)
	1,082,177	1,061,607
RESTRICTED ASSETS - NONCURRENT		
Cash and cash equivalents	7,273	10,392
Investments	160,544	166,790
	167,817	177,182
OTHER ASSETS		
Long-term receivables, net	623	960
Long-term investments	245,665	200,491
Regulatory assets, net	41,444	41,773
Derivative instrument asset	6,077	6,128
Other	202	3,784
	294,011	253,136
TOTAL ASSETS	1,664,045	1,578,341
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	7,193	8,502
Pensions	11,291	6,367
	18,484	14,869
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,682,529	$ 1,593,210

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2016	2015
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 37,097	$ 36,958
Current portion of unearned wholesale power sales	8,430	7,722
Accounts payable	46,847	35,719
Accrued taxes	3,826	3,716
Accrued interest	7,389	7,645
Accrued vacation and other	14,225	13,311
	117,814	105,071
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	559,492	583,916
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	95,682	94,938
Net pension liability	63,480	51,814
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	8,725	8,545
Other liabilities	873	700
	187,260	174,497
TOTAL LIABILITIES	864,566	863,484
DEFERRED INFLOWS OF RESOURCES		
Derivatives	6,077	6,128
Pensions	1,132	7,930
Regulatory liabilities	22,974	23,573
	30,183	37,631
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Net investment in capital assets	488,676	450,863
Restricted	160,409	162,379
Unrestricted	138,695	78,853
	787,780	692,095
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,682,529	$ 1,593,210

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, 2016 AND 2015

(amounts in thousands)	2016	2015
OPERATING REVENUES		
Retail sales	$ 54,005	$ 53,055
Wholesale sales	289,990	299,089
Other operating revenues	18,835	18,343
	362,830	370,487
OPERATING EXPENSES		
Purchased power and water	35,518	49,276
Generation	99,223	78,951
Utility services	44,273	42,334
Taxes	7,690	7,260
Depreciation and amortization	47,296	47,310
Other operation and maintenance	12,301	11,057
	246,301	236,188
OPERATING INCOME	116,529	134,299
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(28,227)	(30,479)
Amortization of deferred debt costs	(809)	(977)
Investment income	6,802	5,685
Federal subsidy income	587	586
Other	(3,224)	(11,727)
	(24,871)	(36,912)
INCOME BEFORE CAPITAL CONTRIBUTIONS	91,658	97,387
CAPITAL CONTRIBUTIONS	4,027	4,635
CHANGE IN NET POSITION	95,685	102,022
TOTAL NET POSITION		
Beginning of year	692,095	590,073
TOTAL NET POSITION		
End of year	$ 787,780	$ 692,095

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

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(amounts in thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 355,772	$ 363,559
Payments to suppliers	(104,377)	(114,435)
Payments to employees	(84,384)	(77,308)
Net cash provided by operating activities	167,011	171,816
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(60,382)	(38,606)
Proceeds from sale of plant	317	459
Principal paid on debt	(34,833)	(136,059)
Interest paid on debt	(15,490)	(19,089)
Capital contributions	3,275	3,467
Other	(763)	(7,690)
Net cash used in capital and related financing activities	(107,876)	(197,518)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(253,245)	(195,872)
Proceeds from sales and maturities of investments	186,016	170,602
Interest on investments	6,398	6,218
Long-term receivables	337	396
Other, net	1,081	(2,688)
Net cash used by investing activities	(59,413)	(21,344)
NET DECREASE IN CASH & CASH EQUIVALENTS	(278)	(47,046)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	34,442	81,488
CASH & CASH EQUIVALENTS, END OF YEAR	$ 34,164	$ 34,442
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 116,529	$ 134,299
Depreciation and amortization	47,296	47,310
(Increase) decrease in operating assets:		
Accounts receivable, net	(4,078)	(1,490)
Materials and supplies	630	(1,330)
Prepayments	54	41
Other	(372)	(269)
Deferred outflows of resources	(4,924)	(3,641)
Increase (decrease) in operating liabilities:		
Accounts payable	9,618	718
Accrued taxes	110	(719)
Accrued vacation and other	914	778
Unearned wholesale revenue	(102)	(7,409)
Customer deposits	(3,530)	2,560
Net pension liability	11,664	10,887
Deferred inflows of resources	(6,798)	(9,919)
Net cash provided by operating activities	$ 167,011	$ 171,816
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 5,040	$ 4,393
Capital contributions	182	527
Amortization of regulatory assets	(1,218)	(854)

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

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NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Operations of the District

Public Utility District No. 1 of Chelan County, Washington (the District) is a municipal corporation of the State of Washington established in 1936. The District owns and operates electric generation, electric transmission, electric and water distribution, wastewater properties and a wholesale telecommunication system. The District is governed by an elected five-member Board of Commissioners (Commissioners). The Commissioners' responsibilities are to appoint the General Manager, approve budgets for the District's Systems, adopt regulations and set policies and guiding financial and operating principles for the operations included in these financial statements. The District has no 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 February 2015, GASB issued Statement No. 72, "Fair Value Measurement and Application," effective for all the District beginning in fiscal year 2016. The statement requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques to enhance fair value application guidance and related disclosures. The adoption of this statement did not have a material effect on the District's financial statements, and additional required disclosures have been made in Note 2 to the financial statements.

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," Statement No. 77, "Tax Abatement Disclosures," Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" and Statement No. 79, "Certain External Investment Pools and Pool Participants" were all effective for the District beginning in fiscal year 2016. Implementation of these statements did not have a material impact to the District's financial results.

During 2016, GASB issued Statement No. 80, "Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14," Statement No. 81, "Irrevocable Split-Interest Agreements," and Statement No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73." During 2015, GASB issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68," These Statements are all effective for fiscal year 2017. The District is still evaluating these statements but does not expect implementation of them to have a material impact to the District's financial results.

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of these statements is to improve both the usefulness of information about postemployment benefits other than pensions (OPEB) included in the external financial reports of state and local

OPEB plans and the accounting and financial reporting by state and local governments for OPEB. The statements replace Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." These statements establish standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined OPEB are also addressed. Statements No. 74 and No. 75 are effective for fiscal years 2017 and 2018, respectively. The District is currently evaluating the financial statement impact of adopting these statements.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The District has used significant estimates in the determination of fair value of derivatives, regulatory assets and liabilities, depreciable lives of utility plant, license obligations, unbilled revenues, self-insurance reserves, incurred but not reported self-insurance liabilities, allowance for uncollectible accounts receivable and payroll related liabilities.

Cash and Cash Equivalents

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

Revenues and Expenses from Operations

Revenues of the District are recognized when services are delivered and are comprised of sales of wholesale power, sales of electric, water, wastewater and wholesale telecommunication services and sales of environmental attributes. The accompanying financial statements include estimated unbilled revenues for energy and wholesale telecommunication services delivered to customers between the last billing date and the end of the year. Estimated unbilled revenues amounted to $2.5 million in both 2016 and 2015. 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 new contract.

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

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

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

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

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

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, 2016, the Rocky Reach, Lake Chelan and Rock Island Systems sell 49%, 100% and 49%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers, firm power purchasers or sold on the wholesale market if in excess of the District's retail 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, 2016 and December 31, 2015, booked-out energy transactions amounted to $47.3 and $48.4 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, 2016, the District had four significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $213.2 million. The District had four significant customers for the year ended December 31, 2015, collectively comprising total revenue of $209.8 million.

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

Under the American Recovery and Reinvestment Act of 2009, the District issued taxable Build America Bonds (BABs) to finance capital projects that otherwise could be financed with tax-exempt bonds. The District receives periodic subsidy payments from the federal government which were equal to 35% of the interest paid on the BABs through 2012. During 2013, the United States Congress made changes to the subsidy program which resulted in a reduction of the total annual subsidy to approximately 32% of the interest paid. In 2016 and 2015, the District recognized non-operating revenues of $587,000 and $586,000, respectively.

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

Regulatory Deferrals

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

Power Marketing

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

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

In addition to the forward trading horizon of 60 months beyond the current year, the District's Board of Commissioners approved a resolution on February 8, 2014 authorizing the General Manager or designee to enter into one or more transactions for the forward sale of energy and capacity and associated environmental attributes not to exceed 10% of the output of Rocky Reach and Rock Island for a term up to fifteen years in duration with the delivery to begin within six years of execution. To date, the District has not executed any transactions that fall under the before-mentioned resolution.

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

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

The District requires that a one-way collateral annex be executed in conjunction with its slice output contracts or when deemed necessary to facilitate trading. The District is not required to post any collateral under these one-way margin agreements. Currently, the District is requiring 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 does accept 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 2015 and 2016 are classified as normal purchases and sales under GASB Statement No. 53 and as such, are excluded from fair value reporting requirements. All forward power contracts are recognized over the duration of the contracts as a component of Operating Revenues and Purchased Power Operating Expenses in the Statement of Revenues, Expenses and Changes in Net Position.

Allowance for Uncollectible Accounts Receivable

A reserve is established for uncollectible accounts receivable based upon actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for uncollectible accounts was $111,000 at December 31, 2016 and 2015.

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 $1.0 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, and 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, including an allowance for funds used during construction (AFUDC) for major non-hydro system projects. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units that meet the District's capitalization threshold to utility plant. The District's capitalization threshold is $5,000. As the District constructs various major projects, costs accumulate in construction work in progress and are capitalized to utility plant after the projects have been completed and placed into service.

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

Pensions

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

Subsequent Events

The District has evaluated all subsequent events through April 20, 2017, 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, 2016 and events which occurred subsequent to December 31, 2016 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)	2016	2015
Unrestricted assets		
Unrestricted	$ 74,673	$ 71,619
Board designated	231,816	164,553
Total unrestricted assets	306,489	236,172
Restricted assets	176,876	181,725
	$ 483,365	$ 417,897

As of December 31, 2016 and 2015, the District had the following cash and investments:

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

Investment Type (amounts in thousands)	Total 2015	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 192,481	$ 981	$ 24,922	$ 91,316	$ 75,262
U.S. Agency Notes	78,236	-	-	14,966	63,270
U.S. Agency Bills	22,635	18,926			3,709
Municipal Bonds	90,101	24,540	9,943	18,450	37,168
Cash Deposits	34,444	34,444	-	-	-
	$ 417,897	$ 78,891	$ 34,865	$ 124,732	$ 179,409

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, 2016:

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

		Fair Value Measurements Using				
Investments (amounts in thousands)	**Total 2015**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Net Asset Value (NAV)**	**Not Leveled**
U.S. Treasuries	$ 192,481	$ 192,481	$ -	$ -	$ -	$ -
U.S. Agency Notes	78,236	-	78,236	-	-	-
U.S. Agency Bills	22,635	-	3,709	-	-	18,926
Municipal Bonds	90,101	-	90,101	-	-	-
Cash Deposits	34,444	-	-	-	-	34,444
Total Investments	$ 417,897	$ 192,481	$ 172,046	$ -	$ -	$ 53,370

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, 2016 and 2015, investments in debt securities had credit quality ratings as follows:

Investment Rating (S&P Equivalent) (amounts in thousands)	2016	2015
Long Term		
AAA	$ 37,147	$ 4,172
AA+	251,581	132,314
AA	13,511	11,257
AA-	29,685	43,229
A+	2,119	-
Short Term		
A-1+	9,055	-
	$ 343,098	$ 190,972

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, 2016 and 2015, 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 2016	2015
Federal Farm Credit Bank	AA+	10%	-%
Federal Home Loan Bank	AA+	10%	12%
Federal National Mortgage Association	AA+	18%	8%
Financing Corporation	AAA	7%	1%

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, 2016, are provided below.

Forward Purchase Agreement

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/16 Fair Value	12/31/15 Fair Value
Wells Fargo Bank, N.A.	Aa2/AA-/AA	6.63%	$ 18,820,179	12/22/1999	6/1/2029	$ 6,077,000	$ 6,128,000

As of December 31, 2016 and 2015, the agreement is considered a hedging derivative instrument, and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to declining interest rates, the forward purchase agreement had a positive fair value to the District as of December 31, 2016 and 2015. 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, 2016 and 2015 is as follows:

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

(amounts in thousands)	January 1, 2015	Additions	Reductions and Transfers	December 31, 2015	Depreciation Expense
Hydroelectric generation	$ 1,207,245	$ 9,861	$ (528)	$ 1,216,578	$ 27,160
Transmission	147,627	6,095	(1,390)	152,332	2,931
Distribution	228,367	9,687	(4,343)	233,711	6,203
General plant	129,807	7,843	(2,543)	135,107	4,146
Intangible	39,709	-	(176)	39,533	1,532
Telecommunications	90,076	3,000	(5,313)	87,763	3,853
Water/ Wastewater	78,203	1,243	(75)	79,371	1,485
	1,921,034	37,729	(14,368)	1,944,395	$ 47,310
Construction work in progress	25,551	43,171	(37,206)	31,516	
Accumulated depreciation	(879,984)	(47,319)	12,999	(914,304)	
	$ 1,066,601	$ 33,581	$ (38,575)	$ 1,061,607	

Plant assets include land of $71.9 million and $71.6 million as of December 31, 2016 and 2015, respectively.

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

The District maintains mechanical breakdown and business interruption insurance policies. Each generating unit has a separate $500,000 deductible for mechanical breakdown claims. Lost revenues related to business interruption are covered from the date of outage for the first Rocky Reach unit and after 60 days out of service for the three subsequent units. The District's insurance company has made partial payments for both mechanical breakdown and business interruption claims for the first unit and has agreed that coverage applies to one of the other three units. A determination of coverage for the two additional units will be made once the units are disassembled for permanent repairs.

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

NOTE 4: LICENSING

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

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

The license for the Lake Chelan Project is based on a settlement agreement submitted to FERC in October 2003, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The license requires implementation of detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources over the life of the license. In addition, the Lake Chelan Project settlement agreement and license contains some measures that will be carried out by various agencies using funds provided by the District. The present value of these accrued funding obligations was estimated to be $9.8 million and $10.0 million as of December 31, 2016 and 2015, respectively. The estimate for these funding obligations may increase by measures that are deferred to later years due to inflationary adjustments and may be reduced by measures that are completed.

A summary of accrued licensing obligations, accounted for as intangible assets, for the years ended December 31, 2016 and 2015 are as follows:

(amounts in thousands)	2016	2015
Licensing obligation - beginning of year	$ 9,964	$ 10,485
Additions	165	-
Reductions	(330)	(521)
Licensing obligation - end of year	$ 9,799	$ 9,964

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

NOTE 5: REGULATORY DEFERRALS

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

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

The following regulatory balances are as of December 31, 2016 and 2015.

(amounts in thousands)	2016	2015
Regulatory Assets:		
Swap termination payments	$ 22,340	$ 24,910
Conservation expenses	11,815	9,142
Debt issuance costs	6,759	7,569
Fair value of investments	3,508	3,130
	$ 44,422	$ 44,751
Regulatory Liabilities:		
Contributed capital	$ 20,702	$ 21,272
Fair value of investments	2,272	2,301
	$ 22,974	$ 23,573

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

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

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

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

Contributed Capital. Individual contributions exceeding $1.0 million are deferred as regulatory liabilities and amortized over the life of the related contributed depreciable plant assets. The Commission has approved resolutions that require this treatment in order to offset the earnings effect of these large non-exchange transactions and align the District's recognition of these credits with the periods in which the amounts will be reflected for rate-making purposes.

NOTE 6: LONG-TERM DEBT

Revenue Bonds and Notes Payable

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

(amounts in thousands)	January 1, 2015	Additions	Reductions	December 31, 2015	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2016, to July 1, 2034 (net unamortized premiums of $308)	$ 14,399	$ -	$ (461)	$ 13,938	$ 445
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2016, to July 1, 2029 (net unamortized premiums of $36)	243,425	13,528	(23,092)	233,861	23,100
Notes Payable, 0.25% to 2%, due June 1, 2016, to June 1, 2031	9,543	-	(811)	8,732	805
Chelan Hydro Consolidated System Revenue Bonds, 5.125%, due July 1, 2015	25,430	-	(25,430)	-	-
Consolidated System Revenue Bonds, 3% to 6.897%, due July 1, 2016, to July 1, 2042 (net unamortized premiums of $7,252)	450,807	15	(87,897)	362,925	11,190
	$ 743,604	$ 13,543	$ (137,691)	$ 619,456	$ 35,540

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

Principal and Interest

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2017	$ 36,023	$ 14,667	$ 50,690
2018	36,112	13,967	50,079
2019	37,192	13,124	50,316
2020	54,534	12,451	66,985
2021	51,840	11,196	63,036
2022-2026	283,992	36,502	320,494
2027-2031	111,389	11,058	122,447
2032-2036	62,765	6,031	68,796
2037-2041	7,240	2,528	9,768
2042	8,370	385	8,755
Total	$ 689,457	$ 121,909	$ 811,366

Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. Principal retirements of $689 million also include $100 million of future appreciation on Capital Appreciation Bonds (CABs).

The Consolidated System Revenue Bonds, Series 2008B, in the outstanding amount of $61.2 million at December 31, 2016, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (Credit Facility) associated with the bonds expired on March 7, 2013. A replacement standby bond purchase agreement was entered into with Union Bank, N.A. (Union Bank) and dated as of March 1, 2013 (Replacement Credit Facility). The Replacement Credit Facility was extended on April 17, 2015, and will be in effect through April 17, 2019. The District pays Union Bank a commitment fee of 40 basis points as prescribed in the Replacement Credit Facility. If any 2008B bonds are purchased and held by Union Bank, the bonds will bear interest at a fluctuating annual rate as specified by the Replacement Credit Facility, which would be at least 600 basis points. In addition, any 2008B bonds purchased and held under the Replacement Credit Facility are subject to special mandatory redemption over a four-year period in eight equal semi-annual principal installments. As of December 31, 2016, Union Bank does not hold any un-remarketed 2008B bonds.

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

The Consolidated System currently includes the District's retail electric utility business operations (referred to as the "Distribution Division"), the Lake Chelan Project, the Fiber and Telecommunications System, the Water System, and the Wastewater System. Although these systems have been consolidated into the Consolidated System for financing purposes, all of these systems are accounted for separately and only the four utility business operations have been combined for financial statement reporting purposes (Utility Services). The District also utilizes the Internal Service Fund and Financing Facilities to account for administrative, financing and other costs allocable to more than one system.

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, 2016 and 2015, 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. Of the total kilowatt-hours purchased by the electric distribution system during 2016, approximately 24% was provided by the Rocky Reach project, 12% by the Rock Island project, 4% by the Lake Chelan project and 60% from other sources. This purchased power is used to meet local load requirements, meet certain contractual obligations, and support the District's hedging strategy.

NOTE 8: EMPLOYEE BENEFIT PLANS

Pension Plans

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

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

Public Employees' Retirement System (PERS)

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

PERS Plan 1

Benefits Provided. PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions. The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1

Actual Contribution Rates:	Employer	Employee
January through December 2016	11.18%	6.00%

For the years ended December 31, 2016 and 2015, the District's actual contributions to the plan were $49,997 and $64,306, respectively.

PERS Plan 2/3

Benefits Provided. PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

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

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

Contributions. The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2*
January through December 2016	11.18%	6.12%
Employee PERS Plan 3		varies

** For employees participating in the judicial benefit multiplier program (JBM), the contribution rate was 15.30%*

For the years ended December 31, 2016 and 2015, the District's actual contributions to the plans were $7.3 million and $6.5 million, respectively.

Pension Liabilities, Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the District reported a total pension liability of $63.5 million and $51.8 million, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability			
(amounts in thousands)		**2016**		**2015**
PERS 1	$	29,161	$	27,800
PERS 2/3	$	34,318	$	24,014

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

	Proportionate Share 12/31/15	Proportionate Share 12/31/16	Change in Proportion
PERS 1	.531455%	.542981%	.011526%
PERS 2/3	.672073%	.681594%	.009521%

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, 2016, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the years ended December 31, 2016 and 2015, the District recognized pension expense as follows:

	Pension Expense			
(amounts in thousands)		**2016**		**2015**
PERS 1	$	2,298	$	1,040
PERS 2/3		4,833		2,773
TOTAL	$	7,131	$	3,813

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	**2016**				**2015**			
(amounts in thousands)		**Deferred Outflows of Resources**		**Deferred Inflows of Resources**		**Deferred Outflows of Resources**		**Deferred Inflows of Resources**
Differences between expected and actual experience	$	-	$	-	$	-	$	-
Net difference between projected and actual investment earnings on pension plan investments		734		-		-		1,520
Changes of assumptions		-		-		-		-
Changes in proportion and differences between contributions and proportionate share of contributions		-		-		-		-
Contributions subsequent to the measurement date		1,613		-		1,661		-
TOTAL	$	2,347	$	-	$	1,661	$	1,520

PERS Plan 2/3	2016		2015	
(amounts in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,828	$ 1,132	$ 2,553	$ -
Net difference between projected and actual investment earnings on pension plan investments	4,200	-	-	6,410
Changes of assumptions	355	-	39	-
Changes in proportion and differences between contributions and proportionate share of contributions	484	-	-	-
Contributions subsequent to the measurement date	2,077	-	2,114	-
TOTAL	$ 8,944	$ 1,132	$ 4,706	$ 6,410

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, 2017.

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 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Discount Rate. The discount rate used to measure the total pension liability for all PERS plans was 7.5%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, whose rates include a component for the PERS 1, plan liability). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
	100%	

Sensitivity of Net Pension Liability

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

(amounts in thousands)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 35,165	$ 29,161	$ 23,994
PERS 2/3	$ 63,185	$ 34,318	$ (17,864)

Pension Plan Fiduciary Net Position

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

Deferred Compensation Plans

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

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

The District also offers its employees a 401(a) employer matching plan. The 401(a) is a qualified, tax deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) Plan, the District will match each employee's contribution to the 457 Plan at a rate of 50% with a cap of 5% of an employee's annual base salary up to a maximum of $9,000 or up to a maximum of $12,000 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2016 and 2015 were $1.9 million and $1.9 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District administers a single-employer defined benefit healthcare plan ("the retiree medical plan"). The plan provides healthcare insurance until the age of 65 for retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. The retiree medical plan does not issue a publicly available financial report.

Funding Policy

The District's subsidy of the cost of 2016 and 2015 premiums for eligible retired plan members and their spouses amounted to $93,000 and $89,000, respectively. Plan members receiving benefits contributed 79% of the premium costs for years 2016 and 2015. For the years ended December 31, 2016 and 2015, total member contributions were $352,000 and $330,000, respectively. Future subsidies will be provided by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

Annual Other Postemployment Benefit Cost and Net Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. The District's OPEB plan was fully funded as of both December 31, 2016 and December 31, 2015. As a result, the District's annual OPEB cost and net OPEB obligation were zero as of both December 31, 2016 and December 31, 2015.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014 through 2016 were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/16	$ -	0%	$ -
12/31/15	-	0%	-
12/31/14	-	0%	-

Funded Status and Funding Progress

As of December 31, 2016 and 2015, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $59.0 million and $55.9 million for 2016 and 2015, respectively. The ratio of the current ARC to the covered payroll was 0.0%.

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

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Actuarial valuations are as of the last actuarial report dated January 1, 2015.

Methods and Assumption

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

The following assumptions are integral to the actuarial calculations:

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

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

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

Discount rate – The actuarial assumptions included a 7.0% investment rate of return based upon the investment allocation policy of the trust.

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rocky Reach and Rock Island hydroelectric production facilities. The outstanding bond issues are secured by a pledge of the net revenues of each project. Each project has an external requirement to be accounted for separately, and investors in the revenue bonds rely solely on the revenue generated by the individual projects for repayment. Summary financial information as of and for the years ended December 31, 2016 and 2015, for both projects is presented below. Included in operating revenues and expenses are intra-district sales and rents which are eliminated in the Statement of Revenues, Expenses and Changes in Net Position.

CONDENSED STATEMENTS OF NET POSITION

(amounts in thousands)	Rocky Reach 2016	Rock Island 2016	Rocky Reach 2015	Rock Island 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 7,810	$ 4,105	$ 8,189	$ 4,833
Restricted assets – current	1,836	5,367	16	2,659
Total current assets	9,646	9,472	8,205	7,492
Utility plant, net	308,155	338,361	314,270	316,218
Restricted assets – noncurrent	50,987	88,076	42,043	84,501
Other assets	8,946	18,710	8,436	22,490
Deferred outflows of resources	3,127	5,824	1,701	4,593
Total assets and deferred outflows of resources	$ 380,861	$ 460,443	$ 374,655	$ 435,294
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 26,416	$ 44,819	$ 25,754	$ 35,892
Long-term debt	151,836	311,335	172,371	328,959
Other liabilities	35,337	36,848	22,947	24,236
Total liabilities	213,589	393,002	221,072	389,087
Deferred inflows of resources	420	25,893	2,258	28,208
Net Position:				
Invested in capital assets, net of related debt	294,365	119,436	300,206	92,038
Restricted	43,758	84,363	42,270	87,354
Unrestricted	(171,271)	(162,251)	(191,151)	(161,393)
Total net position	166,852	41,548	151,325	17,999
Total liabilities, deferred inflows of resources and net position	$ 380,861	$ 460,443	$ 374,655	$ 435,294

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2016	Rock Island 2016	Rocky Reach 2015	Rock Island 2015
Operating revenues	$ 109,814	$ 101,008	$ 96,784	$ 100,535
Less:				
Operating expenses	65,363	42,910	49,728	39,057
Depreciation and amortization	16,951	11,297	16,634	10,975
Operating income	27,500	46,801	30,422	50,503
Other expense	11,973	23,930	13,104	24,650
Income before capital contributions	15,527	22,871	17,318	25,853
Capital contributions	-	678	-	796
Change in net position	15,527	23,549	17,318	26,649
Total net position – beginning of year	151,325	17,999	134,007	(8,650)
Total net position - end of year	$ 166,852	$ 41,548	$ 151,325	$ 17,999

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2016	Rock Island 2016	Rocky Reach 2015	Rock Island 2015
Net cash provided (used) by:				
Operating activities	$ 54,852	$ 68,785	$ 44,719	$ 60,392
Capital and related financing activities	(43,542)	(64,274)	(43,236)	(56,530)
Investing activities	(11,099)	(5,071)	(6,847)	(11,564)
Net increase /(decrease)	211	(560)	(5,364)	(7,702)
Beginning cash and cash equivalents	4,581	7,074	9,945	14,776
Ending cash and cash equivalents	$ 4,792	$ 6,514	$ 4,581	$ 7,074

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, 2016 and 2015 is summarized in the following table for each insurance program:

	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2016	$ -	$ 77,000	$ 1,656,000	$ 157,000
Claims accrued	166,942	582,725	12,413,428	1,014,407
Claims reimbursed	(451,257)	-	-	-
Claims (paid)/reimbursed - net	308,931	(571,725)	(12,168,428)	(1,014,407)
Claims Liability as of December 31, 2016	$ 24,616	$ 88,000	$ 1,901,000	$ 157,000

	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2015	$ -	$ 104,000	$ 1,769,000	$ 147,000
Claims accrued	-	470,898	10,853,458	933,481
Claims paid	-	(497,898)	(10,966,458)	(923,481)
Claims Liability as of December 31, 2015	$ -	$ 77,000	$ 1,656,000	$ 157,000
Commercial Insurance Deductible as of December 31, 2016 and 2015.	Up to $2,000,000 depending on line of coverage	$500,000 per incident	$225,000 per incident	N/A

NOTE 12: COMMITMENTS AND CONTINGENCIES

Environmental Matters

In June 2004, the Federal Energy Regulatory Commission (FERC) ordered the incorporation of the Anadromous Fish Agreements and Habitat Conservation Plans (HCPs) into the licenses for the Rocky Reach and Rock Island projects. The Rocky Reach project HCP was included in the new FERC license issued in February 2009. The HCPs provide a framework for long-term resolution of certain fish issues at the projects. The 50-year plans had been signed by the District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation and the Yakama Nation. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs satisfy the District's obligations for hydro project operations under the ESA for these species and in addition, protect other anadromous salmon including sockeye salmon, summer/fall Chinook, and coho salmon. Collectively, these five species are known as the "Plan Species." In addition to the ESA, the HCPs are also intended to satisfy the projects' obligations for all Plan Species under the Federal Power Act, the Fish and Wildlife Coordination Act, the Essential Fish Habitat provisions of the Magnuson-Stevens Fishery Conservation and Management Act, the Pacific Northwest Electric Power Planning and Conservation Act and Title 77 RCW of the State of Washington.

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

The Columbia River Distinct Population Segment of bull trout is listed by the USFWS (the Service) as a threatened species under the ESA, and a Bull Trout Recovery Team has been established, of which the District is an active member. A draft Upper Columbia River Bull Trout Recovery Plan has been developed which contains recommendations for recovering bull trout in the Columbia River Basin. The District provided the Service comments to the subsequent Draft Mid-Columbia Recovery Unit Implementation Plan (RUIP) released on June 2, 2015 for the Bull

Trout Recovery Plan. The District continues to work with the Service to refine the scientific elements of the RUIP describing potential hydro impacts on bull trout. The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS's biological opinion on potential effects of the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. This plan was later replaced with the Comprehensive Bull Trout Management Plan as required by the Comprehensive Settlement Agreement for the Rocky Reach Project Relicensing. The Bull Trout Management Plan was approved in the new license and provides for protection, mitigation and enhancement measures. Additionally, the USFWS filed its Biological Opinion for the Rocky Reach Project in December 2008 concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify critical habitat. The USFWS Biological Opinion provided terms and conditions of an incidental take permit and required five reasonable and prudent measures be implemented to minimize the incidental take of bull trout. In September 2010, the USFWS formally designated critical habitat for bull trout in the upper mid-Columbia river, including the project areas for Rock Island and Rocky Reach hydros.

Revised Department of Ecology (DOE) water quality standards (WQS) became effective in December 2006. 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 DOE that are consistent with the revised WQS. The DOE allows the District a ten-year window to demonstrate compliance with the new WQS and can require the District to conduct further studies, implement further operational changes or even, in a worst case event, provide structural changes to meet requirements. Compliance with the conditions set forth in these WQS place the District on a path forward in maintaining or achieving water quality standards. Water Quality Certifications may require that further studies be conducted to document methods implemented to address compliance of the WQ standards during the ten-year window and beyond. Based on current evaluations and testing results the determination of what if any additional measures are necessary to address WQS requirements and future costs of implementing those measures cannot be reasonably estimated. Therefore, currently no obligation has been recorded and all related costs are recognized in the year incurred.

Asset Management Program

During 2005, the District entered into a contract to rehabilitate the first of up to six generating units at Powerhouse 1 at Rock Island. The first two units (B9 & B10) were completed under the contract for unit rehabilitation. In 2010, in response to unfavorable economic conditions impacting the District, it was decided that the District defer the rehabilitation of several units until such time as the units began to experience failure or were declared unavailable due to operational concerns. Since 2010, and after an in-depth economic analysis in 2014, it was recommended that it was in the best interest of the District to proceed with rehabilitation of units B5 through B8. In 2015, further analysis was performed, and it was identified that there was additional value in installing new higher efficiency turbines that were not considered in the original analysis. The expanded scope increased the contract price for the third unit (B6) by $2.9 million for a total of $19.7 million. As of December 31, 2016, the remaining commitment for the third unit totaled approximately $7.1 million. Also in 2015, a change order in the amount of $31.4 million was entered into for the work to be performed on the fourth unit, as well as turbine components for the fifth and sixth units, which was later revised via a change order to $31.9 million. As of December 31, 2016, the remaining commitment for the fourth unit was $19.9 million. In 2016, two change orders in the amount of $6.2 million each were entered into for additional turbine and generator equipment for the fifth and sixth units. As of December 31, 2016, the remaining commitments were $6.2 million each. In December, Commisioners authorized staff to award a $42 million contract after a competitive bid process supporting an overall $64 million project budget to move forward with updated plans for modernization of Rock Island Dam units B1-B4. The contract award included taking advantage of a $1.24 million contract discount by awarding a project schedule that returns three of the four units by mid 2019 and the fourth unit by late 2019, well in advance of the HCP check-in starting in the spring of 2020.

During 2012, the District entered into a $4.9 million contract for the programming and supply of digital turbine governors and unit controllers at Rocky Reach and Rock Island. The contract included replacement of the electronic portion of the governors, associated interface devices to the hydraulic portion and the unit controls with the new programmable logic controller based systems. The original contract was later amended for a total cost of $5.6 million. As of December 31, 2016, the remaining construction commitment totaled approximately $2.4 million.

During 2014, the District entered into a $21.8 million contract for turbine repairs for the four largest units at Rocky Reach, units C-8 through C-11 which was later revised via change order to $22.3 million. Components of turbine runners have failed and need repair. Runner repair will require disassembly of the turbine and work on associated turbine parts to return the units to reliable service. In 2016 contractor notified the District that a significant number of cracks were being observed in the first unit's outer head cover and that contractor was unsure as to the nature and cause. After further investigation, it was determined that the outer head covers for all four units were not repairable to the contract specification of an additional 30 years of operations, and that the District would procure new outer head covers. The contract scope was modified to remove the work associated with the repair of the outer head covers, resulting in a contract price decrease in the amount of $1.9 million. Plans are to do the long-term repairs on one unit per year with the first unit (C8) scheduled to be completed in 2017 and the final unit completed in 2021. As of December 31, 2106, the remaining commitment totaled approximately $4.4 million for the first two units and $11.4 million for the remaining two units. The District entered into a separate $2.9 million contract for procurement of new head covers. As of December 31, 2016, the remaining commitment totaled approximately $1.8 million.

During 2015, the District entered into a $4.6 million contract for the replacement of the existing intake gantry crane at Rocky Reach Dam. As of December 31, 2016, the remaining commitment totaled approximately $1.9 million.

During 2015, the District also entered into a $17.4 million contract, which was later revised via change order to $17.7 million, to provide Rocky Reach units C-8 through C-11 stator winding replacement. The contract included a three-year warranty and an option to increase the warranty to five years for each unit, as well as the option to refurbish the rotor poles of unit C-9. As of December 31, 2016, the remaining commitment totaled approximately $7.6 million.

During 2016, the District entered into a $4.4 million contract, and later amended for a total of $4.6 million, for the refurbishment of existing bridge cranes at Rocky Reach Dam. As of December 31, 2016, the remaining commitment totaled approximately $3.9 million.

Power Marketing

As of December 31, 2016, the District had entered into forward block contracts obligating it to deliver approximately 6,696,000 MWh of energy at various times during each of the years in the period 2017-2021. The District expects to receive approximately $244.4 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 2017-2021, in exchange for approximately $235.9 million.

The District has committed to purchase approximately 3,099,000 MWh of energy at a cost of approximately $82.0 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, was also 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, 2016, the District's share of bond principal was $4.9 million and was not to exceed $6.1 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. The District's debt obligations related to phases I and II remain the same, but its share of the combined project output and combined operation and maintenance costs were reduced as a result of not participating in phase III.

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

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

Claims and Litigation

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

NOTE 13: SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION SERVICES

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

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

(amounts in thousands)	2016	2015
Operating revenues		
Wholesale fiber services	$ 6,267	$ 6,267
Fiber leasing	598	539
Intradistrict revenues	2,452	2,442
Total operating revenues	9,317	9,248
Operating expenses		
Administrative and general	1,542	1,568
Repairs and maintenance	1,059	1,725
Other operating	3,233	2,927
Depreciation expense	2,573	3,853
Total operating expense	8,407	10,073
Operating income/(loss)	910	(825)
Other income/(expenses)	(12)	246
Net income/(loss) before capital contributions	898	(579)
Capital contributions	23	60
Interfund equity transfers	-	8,200
Change in net position	$ 921	$ 7,681

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2016 and 2015.

(Amounts in thousands)	2016	2015
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 12,662	$ 5,522
Utility plant, net and other assets	46,254	52,924
Total assets	58,916	58,446
Deferred outflows of resources	509	291
Total assets and deferred outflows of resources	$ 59,425	$ 58,737
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 545	$ 483
Deferred inflows of resources	68	362
Net position	58,812	57,892
Total liabilities, deferred inflows of resources and net position	$ 59,425	$ 58,737

The District's net capital investment in telecommunications plant and equipment for 2016 and 2015 was \$(360,000) and \$(2.0) million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2016, was \$89.4 million. The capital investment, as well as cumulative net losses, was funded by interfund equity transfers.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

	PERS Plan 1		PERS Plans 2/3	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Proportion of the net pension liability	.542981%	.531455%	.681594%	.672073%
Proportionate share of the net pension liability	$ 29,161	$ 27,800	$ 34,318	$ 24,014
Covered-employee payroll	$ 447	$ 630	$ 65,077	$ 64,259
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	6,523.71%	4,412.70%	52.73%	37.37%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	85.82%	89.20%

PERS PLAN 1

Schedule of the District's Contributions

(dollars in thousands)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	$ 50	$ 64	$ 70	$ 74	$ 75	$ 78	$ 69	$ 153	$ 160	$ 179
Contributions in relation to the contractually required contribution	(50)	(64)	(70)	(74)	(75)	(78)	(69)	(153)	(160)	(179)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 447	$ 630	$ 765	$ 913	$ 1,047	$ 1,332	$ 1,301	$ 2,152	$ 2,254	$ 3,163
Contributions as a percentage of covered-employee payroll	11.18%	10.21%	9.21%	8.11%	7.20%	5.82%	5.31%	7.11%	7.12%	5.66%

PERS PLAN 2/3

Schedule of the District's Contributions

(dollars in thousands)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	$ 7,276	$ 6,539	$ 5,428	$ 4,575	$ 3,943	$ 3,284	$ 2,795	$ 3,514	$ 3,649	$ 2,803
Contributions in relation to the contractually required contribution	(7,276)	(6,539)	(5,428)	(4,575)	(3,943)	(3,284)	(2,795)	(3,514)	(3,649)	(2,803)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$65,077	$ 64,259	$58,959	$56,186	$54,778	$53,085	$52,632	$51,144	$50,726	$ 49,119
Contributions as a percentage of covered-employee payroll	11.18%	10.18%	9.21%	8.14%	7.20%	6.19%	5.31%	6.87%	7.19%	5.71%

Schedule of Funding Progress for Postretirement Health Benefits Program

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

Combining Schedule of Revenues, Expenses and Changes in Net Position

FOR THE YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2016	2015
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 54,653	$ -	$ -	$ (648)	$ 54,005	$ 53,055
Wholesale sales	109,610	100,850	8,649	210,357	9,364	-	(148,840)	289,990	299,089
Other operating revenues	204	158	544	27,538	-	17,647	(27,256)	18,835	18,343
	109,814	101,008	9,193	292,548	9,364	17,647	(176,744)	362,830	370,487
OPERATING EXPENSES									
Purchased power and water	-	-	-	181,905	-	-	(146,387)	35,518	49,276
Generation	64,112	42,273	5,914	-	-	-	(13,076)	99,223	78,951
Utility services	-	-	-	60,129	-	-	(15,856)	44,273	42,334
Other operation and maintenance	-	-	-	-	-	13,726	(1,425)	12,301	11,057
Taxes	1,251	637	104	5,698	-	-	-	7,690	7,260
Depreciation and amortization	16,951	11,297	1,887	13,578	-	3,583	-	47,296	47,310
	82,314	54,207	7,905	261,310	-	17,309	(176,744)	246,301	236,188
OPERATING INCOME	27,500	46,801	1,288	31,238	9,364	338	-	116,529	134,299
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(670)	(13,308)	-	(14)	(14,235)	-	-	(28,227)	(30,479)
Interest on intersystem loans	(11,764)	(10,212)	(769)	-	22,745	-	-	-	-
Amortization of regulatory assets - debt issuance costs	(21)	(290)	-	-	(498)	-	-	(809)	(977)
Investment income	782	2,370	105	2,087	1,149	309	-	6,802	5,685
Federal subsidy income	-	-	-	-	587	-	-	587	586
Other	(300)	(2,490)	(615)	3,287	(2,893)	(213)	-	(3,224)	(11,727)
	(11,973)	(23,930)	(1,279)	5,360	6,855	96	-	(24,871)	(36,912)
INCOME BEFORE CAPITAL CONTRIBUTIONS	15,527	22,871	9	36,598	16,219	434	-	91,658	97,387
CAPITAL CONTRIBUTIONS	-	678	-	3,349	-	-	-	4,027	4,635
CHANGE IN NET POSITION	15,527	23,549	9	39,947	16,219	434	-	95,685	102,022
TOTAL NET POSITION									
Beginning of year	151,325	17,999	77,584	377,805	59,334	8,048	-	692,095	590,073
TOTAL NET POSITION									
End of year	$ 166,852	$ 41,548	$ 77,593	$ 417,752	$ 75,553	$ 8,482	$ -	$ 787,780	$ 692,095

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, 2016 AND 2015

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2016	2015
CURRENT ASSETS									
Cash and cash equivalents	$ 807	$ 862	$ 612	$ 13,323	$ 6,542	$ 1,259	$ -	$ 23,405	$ 21,333
Investments	1,291	1,378	978	21,300	10,460	2,012	-	37,419	14,348
Accounts receivable, net	2,094	1,190	15	28,554	-	26	-	31,879	27,801
Accrued interest receivable	206	279	26	568	498	76	-	1,653	1,082
Materials and supplies	2,946	-	-	9,205	-	347	-	12,498	13,128
Prepayments and other	437	369	65	273	-	5	-	1,149	1,203
Current portion of regulatory assets	29	27	-	51	2,865	6	-	2,978	2,978
	7,810	4,105	1,696	73,274	20,365	3,731	-	110,981	81,873
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	706	2,065	1	119	-	595	-	3,486	2,717
Investments	1,130	3,302	-	190	-	951	-	5,573	1,826
	1,836	5,367	1	309	-	1,546	-	9,059	4,543
TOTAL CURRENT ASSETS	9,646	9,472	1,697	73,583	20,365	5,277	-	120,040	86,416
UTILITY PLANT									
In service, at original cost	628,870	572,073	122,339	545,172	-	101,736	-	1,970,190	1,944,395
Construction work in progress	5,636	43,118	-	8,290	-	1,429	-	58,473	31,516
Less-accumulated depreciation	(326,351)	(276,830)	(31,923)	(238,864)	-	(72,518)	-	(946,486)	(914,304)
	308,155	338,361	90,416	314,598	-	30,647	-	1,082,177	1,061,607
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	3,279	3,587	-	-	407	-	-	7,273	10,392
Investments	47,708	84,489	-	1,253	20,853	6,241	-	160,544	166,790
	50,987	88,076	-	1,253	21,260	6,241	-	167,817	177,182
OTHER ASSETS									
Long-term receivables, net	-	-	-	623	-	-	-	623	960
Long-term investments	8,474	9,050	6,423	139,838	68,669	13,211	-	245,665	200,491
Regulatory assets, net	421	3,531	28	12,702	24,645	117	-	41,444	41,773
Derivative instrument asset	-	6,077	-	-	-	-	-	6,077	6,128
Other	51	52	-	13,855	-	10	(13,766)	202	3,784
	8,946	18,710	6,451	167,018	93,314	13,338	(13,766)	294,011	253,136
TOTAL ASSETS	377,734	454,619	98,564	556,452	134,939	55,503	(13,766)	1,664,045	1,578,341
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	2,657	-	-	4,536	-	-	7,193	8,502
Pensions	3,127	3,167	403	4,594	-	-	-	11,291	6,367
	3,127	5,824	403	4,594	4,536	-	-	18,484	14,869
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 380,861	$ 460,443	$ 98,967	$ 561,046	$ 139,475	$ 55,503	$ (13,766)	$ 1,682,529	$ 1,593,210

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

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2016	2015
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 18,967	$ 29,432	$ 2,402	$ 763	$ (14,467)	$ -	$ -	$ 37,097	$ 36,958
Current portion of unearned wholesale power sales	656	655	-	6,494	625	-	-	8,430	7,722
Accounts payable	9,415	15,519	541	14,349	9	7,014	-	46,847	35,719
Accrued taxes	1,286	652	105	1,564	-	219	-	3,826	3,716
Accrued interest	330	152	-	20	6,887	-	-	7,389	7,645
Intersystem payables (receivables)	(4,261)	(1,614)	(608)	12,139	-	(5,656)	-	-	-
Accrued vacation and other	23	23	2	41	-	14,136	-	14,225	13,311
	26,416	44,819	2,442	35,370	(6,946)	15,713	-	117,814	105,071
LONG-TERM DEBT									
Revenue bonds and notes payable	13,460	223,750	-	7,927	350,378	-	-	595,515	619,456
Intersystem loans payable (receivable)	157,343	117,017	9,216	(10,876)	(303,968)	31,268	-	-	-
Less-current maturities	(18,967)	(29,432)	(1,328)	(763)	14,467	-	-	(36,023)	(35,540)
	151,836	311,335	7,888	(3,712)	60,877	31,268	-	559,492	583,916
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	8,505	8,921	-	83,701	8,321	-	(13,766)	95,682	94,938
Net pension liability	17,582	17,804	2,264	25,830	-	-	-	63,480	51,814
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	8,725	-	-	-	-	8,725	8,545
Other liabilities	-	873	-	-	-	-	-	873	700
	35,337	36,848	10,989	109,531	8,321	-	(13,766)	187,260	174,497
TOTAL LIABILITIES	213,589	393,002	21,319	141,189	62,252	46,981	(13,766)	864,566	863,484
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,077	-	-	-	-	-	6,077	6,128
Pensions	314	318	40	460	-	-	-	1,132	7,930
Regulatory liabilities	106	19,498	15	1,645	1,670	40	-	22,974	23,573
	420	25,893	55	2,105	1,670	40	-	30,183	37,631
TOTAL NET POSITION	166,852	41,548	77,593	417,752	75,553	8,482	-	787,780	692,095
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 380,861	$ 460,443	$ 98,967	$ 561,046	$ 139,475	$ 55,503	$ (13,766)	$ 1,682,529	$1,593,210

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

Combining Schedule of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2016, WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 119,769	$ 111,107	$ 9,200	$ 266,092	$ 8,740	$ 17,669	$ (176,805)	$ 355,772	$ 363,559
Payments to suppliers	(39,504)	(18,183)	(2,644)	(209,956)	(63)	(10,832)	176,805	(104,377)	(114,435)
Payments to employees	(25,413)	(24,139)	(3,389)	(30,761)	-	(682)	-	(84,384)	(77,308)
Net cash provided by operating activities	54,852	68,785	3,167	25,375	8,677	6,155	-	167,011	171,816
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(10,588)	(21,736)	(600)	(21,775)	-	(5,683)	-	(60,382)	(38,606)
Additions to pooled assets	134	122	12	-	-	(268)	-	-	-
Proceeds from sale of plant	20	81	-	148	-	68	-	317	459
Principal (paid) received on debt & intersystem loans	(20,628)	(30,307)	(1,484)	(1,785)	15,239	4,132	-	(34,833)	(136,059)
Interest (paid) received on debt & intersystem loans	(12,445)	(10,534)	(770)	(17)	8,276	-	-	(15,490)	(19,089)
Capital contributions	-	151	-	3,124	-	-	-	3,275	3,467
Other	(35)	(2,051)	(609)	1,878	6	48	-	(763)	(7,690)
Net cash (used in) provided by capital and related financing activities	(43,542)	(64,274)	(3,451)	(18,427)	23,521	(1,703)	-	(107,876)	(197,518)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	(11,929)	(7,704)	43	(11,155)	(31,797)	(4,687)	-	(67,229)	(25,270)
Interest on investments	693	2,248	93	1,874	1,220	270	-	6,398	6,218
Long-term receivables	-	-	-	337	-	-	-	337	396
Other, net	137	385	19	356	132	52	-	1,081	(2,688)
Net cash (used in) provided by investing activities	(11,099)	(5,071)	155	(8,588)	(30,445)	(4,365)	-	(59,413)	(21,344)
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	211	(560)	(129)	(1,640)	1,753	87	-	(278)	(47,046)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,581	7,074	742	15,082	5,196	1,767	-	34,442	81,488
CASH & CASH EQUIVALENTS, END OF YEAR	$ 4,792	$ 6,514	$ 613	$ 13,442	$ 6,949	$ 1,854	$ -	$ 34,164	$ 34,442

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

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	$ 27,500	$ 46,801	$ 1,288	$ 31,238	$ 9,364	$ 338	$ -	$ 116,529	$ 134,299
Depreciation and amortization	16,951	11,297	1,887	13,578	-	3,583	-	47,296	47,310
(Increase) decrease in operating assets:									
Accounts receivable, net	1,299	1,441	6	(6,845)	-	21	-	(4,078)	(1,490)
Materials and supplies	(185)	-	-	822	-	(7)	-	630	(1,330)
Prepayments	29	15	2	8	-	-	-	54	41
Other	-	-	-	(372)	-	-	-	(372)	(269)
Deferred outflows of resources	(1,426)	(1,445)	(188)	(1,865)	-	-	-	(4,924)	(3,641)
Increase (decrease) in operating liabilities:									
Accounts payable	2,796	653	84	5,302	(62)	845	-	9,618	718
Accrued taxes	14	(3)	9	32	-	58	-	110	(719)
Accrued vacation and other	(2,711)	(586)	(211)	3,105	-	1,317	-	914	778
Unearned wholesale revenue	(598)	(602)	-	1,723	(625)	-	-	(102)	(7,409)
Customer deposits	9,250	9,250	-	(22,030)	-	-	-	(3,530)	2,560
Net pension liability	3,738	3,791	517	3,618	-	-	-	11,664	10,887
Deferred inflows of resources	(1,805)	(1,827)	(227)	(2,939)	-	-	-	(6,798)	(9,919)
Net cash provided by operating activities	$ 54,852	$ 68,785	$ 3,167	$ 25,375	$ 8,677	$ 6,155	$ -	$ 167,011	$ 171,816
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ 700	$ 8,565	$ -	$ (3,608)	$ -	$ (617)	$ -	$ 5,040	$ 4,393
Capital contributions	-	-	-	182	-	-	-	182	527
Amortization of regulatory assets	-	-	-	(1,218)	-	-	-	(1,218)	(854)

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

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Bond Series	Trustee/Registar/Paying Agent
Consolidated System:	
2007B & C	U.S. Bank N.A.
2008B	U.S. Bank N.A.
2009C & D	U.S. Bank N.A.
2011A, B & C	U.S. Bank N.A.
Rocky Reach Hydroelectric System:	
2009A	U.S. Bank N.A.
Columbia River-Rock Island Hydroelectric System:	
1997A	PUD No. 1 of Chelan County
2009A	U.S. Bank N.A.

Addresses:

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

U.S. Bank N.A.
PD-WA-T7CT
1420 Fifth Ave., 7th Floor
Seattle, WA 98101
(206) 344-4616

U.S. Bank Global Corporate Trust Services
111 Fillmore Ave. E
St. Paul, MN 55107
Mail Station: EP-MN-WS2N
(800) 934-6802

Continuing Disclosure Information

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

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

Contacts for Financial Information

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

Debra D. Litchfield
Director-Treasury/Treasurer
e-mail: debbie.litchfield@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 2016 (1)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	331	$ 5,510	2.0%
Stemilt Growers	Agriculture	51	992	0.4%
Keyes Fibre	Packaging	31	586	0.2%
Confluence Health	Medical	27	560	0.2%
Tree Top	Agriculture/Server Hosting	26	499	0.2%
		466	$ 8,147	3.0%

1. Excludes non firm sales for resale.

Distribution Division
STATEMENT OF REVENUES AND EXPENSES ($000)

Calendar Year	2012	2013	2014	2015	2016
Operating revenues					
Retail	$ 48,135	$ 49,099	$ 48,938	$ 48,014	$ 48,447
Resale (1)	197,557	179,604	210,976	188,436	201,134
Other (2)	12,996	25,064	30,943	25,744	27,380
Total	258,688	253,767	290,857	262,194	276,961
Operating expenses (1)	225,856	225,796	277,462	225,526	246,547
Net operating revenue	32,832	27,971	13,395	36,668	30,414
Other income (expense)	(2,744)	907	1,966	969	5,262
Net revenue (3)	$ 30,088	$ 28,878	$ 15,361	$ 37,637	$ 35,676

1. Includes contractual purchases and nonfirm purchases for resale. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division. In 2015, 2014 Operating Expenses were restated to incorporate new GASB pension accounting requirements.
2. The Distribution Division includes transmission revenue under transmission agreements.
3. Prior to changes in accounting principles, capital contributions and interfund equity transfers.

Calendar Year	2012	2013	2014	2015	2016
Requirements (000 MWh) (1)	9,062	8,372	10,155	9,021	9,859
Resources (000 MWh)					
Rocky Reach System (2)(3)	5,280	3,080	3,103	2,824	2,839
Rock Island System (3)	2,171	1,544	1,319	1,450	1,407
Lake Chelan System	425	444	426	440	471
Other purchases (4)	1,186	3,304	5,307	4,307	5,142
	9,062	8,372	10,155	9,021	9,859
Purchased Power Costs ($000)					
Rocky Reach System (2)(3)	$ 69,860	$ 45,858	$ 46,437	$ 47,926	$ 53,812
Rock Island System (2)(3)	60,495	49,592	53,109	50,443	50,679
Lake Chelan System	11,640	11,931	13,270	8,185	8,649
Other purchases (4)	32,417	63,698	106,240	57,475	68,465
	$ 174,412	$ 171,079	$ 219,056	$ 164,029	$ 181,605
Average cost ($/MWh) (5)	$ 19	$ 20	$ 22	$ 18	$ 18

1. Net of timing differences and losses. In 2013, year 2012 requirements were restated for Douglas County PUD power, slice and real-time activities and to correct an entry error.
2. Effective June 8, 2012, the Distribution Division share of Rock Island output increased under new power sales contracts.
3. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.
4. Other purchases include firm and non-firm power purchased to: meet local requirements and certain contractual obligations, hedge price movements and minimize the District's overall risk exposure to changes in power prices. Effective January 1, 2015, "booked-out" energy is excluded due to a change in reporting from gross to net.
5. Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost may be due to fluctuations in water conditions on the Columbia River, which may significantly affect market prices, and fluctuations in power repurchases from Alcoa under the prior power sales contract.

Calendar Year	2012 (1)	2013	2014	2015	2016
Customers					
Retail:					
Residential	36,057	36,402	37,047	37,222	37,708
Commercial	6,133	6,182	6,246	6,290	6,296
Industrial	31	31	31	30	31
Irrigation, frost, lighting	5,690	5,683	5,673	5,617	5,616
Interdepartmental	552	556	560	543	556
Total retail customers	48,463	48,854	49,557	49,702	50,207
Resale:	79	84	85	87	86
Total customers	48,542	48,938	49,642	49,789	50,293
Energy Sales (000 MWh)					
Retail:					
Residential	762	788	782	742	756
Commercial	466	474	482	482	491
Industrial	273	272	252	256	265
Irrigation, frost, lighting	42	42	46	48	43
Interdepartmental	22	24	23	26	16
Total retail sales	1,565	1,600	1,585	1,554	1,571
Resale:					
Alcoa Power (2)	2,138	59	69	88	-
Douglas County PUD	404	345	363	325	331
Other - firm/slice	2,059	2,114	1,945	2,155	2,147
Other - non firm/block/preschedule/real time (3)	2,995	4,190	6,224	4,714	6,088
Total sales for resale	7,596	6,708	8,601	7,282	8,566
Total energy sales	9,161	8,308	10,186	8,836	10,137
Revenue ($000)					
Retail:					
Residential	$ 24,520	$ 25,178	$ 25,068	$ 24,021	$ 24,424
Commercial	15,860	16,083	16,391	16,348	16,666
Industrial	5,502	5,490	5,154	5,185	5,366
Irrigation, frost, lighting	1,589	1,651	1,656	1,722	1,529
Interdepartmental	664	697	669	738	463
Total retail revenue	48,135	49,099	48,938	48,014	48,448
Resale:					
Alcoa Power (2)	39,394	1,899	2,808	2,207	-
Douglas County PUD	4,231	4,532	4,980	5,204	5,510
Other - firm/slice	65,866	78,527	76,136	84,262	75,431
Other - non firm/block/preschedule/real time (3)	88,066	94,646	127,052	96,763	113,995
Total resale revenue	197,557	179,604	210,976	188,436	194,936
Other revenue (4)	12,996	25,064	30,943	25,744	27,380
Total revenue	$ 258,688	$ 253,767	$ 290,857	$ 262,194	$ 270,764

1. In 2013, year 2012 total sales statistics were restated.
2. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division. In December 2015, Alcoa curtailed its Wenatchee Works smelting facility. After a 90-day threshold of being curtailed, the proceeds from the sale of any unused power were first applied to Alcoa's monthly contractual costs. Any surplus proceeds in excess of Alcoa's costs were retained by the District.
3. Effective January 1, 2015, "booked-out" energy is excluded due to a change in reporting from gross to net.
4. Includes transmission, real-time agreement and environmental attribute revenues.

POWER COST AND NET POWER DELIVERED ($000)

Calendar Year	2012	2013	2014	2015	2016
Rocky Reach System					
Operating expenses (1)	$ 37,467	$ 42,476	$ 44,163	$ 49,728	$ 65,363
Depreciation and amortization	16,942	16,652	16,512	16,634	16,951
Interest expense	16,133	15,194	14,209	13,336	12,434
Other (revenue) expense (2)(7)	(886)	111	(960)	(440)	(665)
Total power cost (3)	$ 69,656	$ 74,433	$ 73,924	$ 79,258	$ 94,083
Net power delivered (000 MWh)	7,082	6,219	6,216	5,748	5,833
Cost in $/MWh	$ 10	$ 12	$ 12	$ 14	$ 16
Plant factor (4)	62%	55%	55%	50%	51%
Availability factor	93%	79%	89%	79%	73%
Average river flow (000 CFS) (5)	141	117	113	103	107
Rock Island System					
Operating expenses (1)	$ 38,041	$ 35,834	$ 42,783	$ 39,057	$ 42,909
Depreciation and amortization	10,518	11,180	10,904	10,975	11,297
Interest expense	27,041	26,260	25,388	24,457	23,520
Other (revenue) expense (2)(7)	(521)	1,174	(320)	(772)	(426)
Total power cost (3)	$ 75,079	$ 74,448	$ 78,755	$ 73,717	$ 77,300
Net power delivered (000 MWh)(6)	3,306	3,077	2,648	2,932	2,853
Cost in $/MWh	$ 23	$ 24	$ 30	$ 25	$ 27
Plant factor (4)	60%	56%	48%	53%	52%
Availability factor	93%	90%	82%	81%	62%
Lake Chelan System					
Operating expenses (1)	$ 4,608	$ 4,737	$ 5,709	$ 5,134	$ 6,018
Depreciation and amortization	1,847	1,856	1,864	1,889	1,887
Interest expense	4,052	3,929	3,790	836	770
Other (revenue) expense (2)(7)	(755)	39	(37)	(3)	(35)
Total power cost (3)	$ 9,752	$ 10,561	$ 11,326	$ 7,856	$ 8,640
Net power delivered (000 MWh)	425	444	426	440	471
Cost in $/MWh	$ 23	$ 24	$ 27	$ 18	$ 18
Plant factor (4)	82%	86%	82%	85%	91%
Availability factor	99%	100%	90%	89%	92%
Combined Hydro Cost in $/MWh	$ 14	$ 16	$ 18	$ 18	$ 20

1. In 2015, year 2014 updated for the impacts of the retroactive implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27," which became effective for the District in 2015.
2. Includes other income and expenses that impact power cost.
3. Non-GAAP, may not be comparable with similarly titled other District metrics.
4. Net power delivered as a percentage of rated capacity for the year.
5. Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).
6. After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.
7. In 2013, year 2012 was restated to include additional revenue categories.

Consolidated System

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

Calendar Year	2012	2013	2014	2015	2016
Operating revenues (1)					
Retail	$ 53,330	$ 54,447	$ 54,782	$ 54,009	$ 54,653
Resale	229,864	215,373	247,481	219,650	228,371
Other	29,069	42,542	49,355	44,009	45,728
Total	312,263	312,362	351,618	317,668	328,752
Less: Operating expenses					
Purchased power and water	(174,715)	(171,389)	(219,381)	(164,338)	(181,905)
Other operation & maintenance	(64,620)	(65,601)	(72,148)	(74,866)	(79,770)
Taxes	(5,094)	(5,686)	(5,742)	(5,388)	(5,802)
Depreciation & amortization	(20,900)	(20,542)	(20,992)	(19,700)	(19,048)
Operating income	46,934	49,144	33,355	53,376	42,227
Adjustments					
Add back depreciation & amortization	20,900	20,542	20,992	19,700	19,048
Add investment income	3,043	1,943	2,383	3,051	3,651
Add principal and interest payments from Rocky Reach & Rock Island	50,233	48,683	49,720	48,520	46,650
Subtract investment earnings credited to Rocky Reach & Rock Island	(132)	-	-	-	-
Total adjustments	74,044	71,168	73,095	71,271	69,349
Net revenues	120,978	120,312	106,450	124,647	111,576
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 120,978	$ 120,312	$ 106,450	$ 124,647	$ 111,576
Available funds (2)	$ 225,867	$ 233,294	$ 235,492	$ 202,221	$ 272,163
Annual debt service	$ 47,545	$ 41,668	$ 39,745	$ 42,751	$ 28,280
Debt service coverage					
With available funds (required 1.25x)	7.30	8.49	8.60	7.65	13.57
Without available funds (required 1.00x)	2.54	2.89	2.68	2.92	3.95

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

Consolidated System and Hydroelectric Systems

OUTSTANDING LONG-TERM DEBT AS OF DECEMBER 31, 2016 ($000)

Date of Bonds	Final Maturity Date	Series of	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Principal Amount Outstanding	Accumulated for Retirement (3)
CONSOLIDATED SYSTEM							
5/31/2007	7/1/2042	2007B	$ 8,370	$ -	$ -	$ 8,370	$ 418
5/31/2007	7/1/2037	2007C	25,590	4,545	4,545	21,045	1,239
6/3/2009	7/1/2032	2008B	92,880	9,230	31,685	61,195	972
8/11/2009	7/1/2019	2009C	6,545	4,295	4,295	2,250	243
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	29,855	29,855	77,645	5,244
6/1/2011	7/1/2026	2011B	72,220	20,060	20,060	52,160	3,377
11/9/2011	7/1/2026	2011C	164,425	26,085	69,360	95,065	5,351
Total Consolidated System			504,545	94,070	159,800	344,745	18,644
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	167,190	167,190	216,934	32,027
8/11/2009	7/1/2029	2009A	14,000	2,600	7,215	6,785	608
Total Rock Island System			149,944	169,790	174,405	223,719	32,635
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	2,710	2,710	13,185	764
Total Rocky Reach System			15,895	2,710	2,710	13,185	764
Grand Total			$ 670,384	$ 266,570	$ 336,915	$ 581,649	$ 52,043

1. Amount of serial bonds matured as of December 31, 2016 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, 2016 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, 2016 ($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 163,683	$ (6,340)	$ 157,343
Rock Island System	125,588	(8,571)	117,017
Consolidated System (3)	55,474	(25,866)	29,608
	$ 344,745	$ (40,777)	$ 303,968

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

Consolidated System Debt Service and Hydroelectric Systems Loan Payments

AS OF DECEMBER 31, 2016

	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service			Rocky	Rock	Total Loan
Year	Principal (2)	Interest (3)	Total	Reach	Island	Payments
2017	$ 11,675,000	$ 13,664,159	$ 25,339,159	$ 29,214,359	$ 16,357,379	$ 45,571,738
2018	12,200,000	12,991,111	25,191,111	22,110,177	15,482,068	37,592,245
2019	12,547,400	12,195,179	24,742,579	19,884,836	14,849,247	34,734,083
2020	30,110,000	11,570,246	41,680,246	18,682,912	14,912,410	33,595,322
2021	27,385,000	10,365,450	37,750,450	16,995,034	14,174,292	31,169,326
2022	28,585,000	9,257,509	37,842,509	16,995,986	13,992,722	30,988,708
2023	29,885,000	8,058,120	37,943,120	16,928,190	13,986,388	30,914,578
2024	31,305,000	6,741,493	38,046,493	16,872,091	13,514,012	30,386,103
2025	34,840,000	5,342,760	40,182,760	14,732,661	13,060,229	27,792,890
2026	22,533,353	3,782,291	26,315,644	13,050,225	13,000,617	26,050,842
2027	2,930,000	2,095,306	5,025,306	11,627,056	12,999,821	24,626,877
2028	3,875,000	1,992,768	5,867,768	10,208,263	13,617,350	23,825,613
2029	2,345,000	1,887,003	4,232,003	8,878,935	9,384,242	18,263,177
2030	2,450,000	1,779,505	4,229,505	7,463,981	10,863,167	18,327,148
2031	2,565,000	1,664,935	4,229,935	6,054,618	10,348,046	16,402,664
2032	46,727,775	1,466,197	48,193,972	4,803,146	9,210,877	14,014,023
2033	2,800,000	1,262,077	4,062,077	4,220,632	9,158,162	13,378,794
2034	2,930,000	1,131,130	4,061,130	3,961,897	8,697,915	12,659,812
2035	3,065,000	998,757	4,063,757	2,638,751	7,726,901	10,365,652
2036	3,195,000	860,282	4,055,282	1,388,256	7,567,744	8,956,000
2037	2,101,027	715,936	2,816,963	289,191	7,303,721	7,592,912
2038	1,905,000	565,037	2,470,037	289,191	6,488,326	6,777,517
2039	194,940	477,106	672,046	146,202	3,091,288	3,237,490
2040	-	385,020	385,020	-	1,033,001	1,033,001
2041	-	385,020	385,020	-	928,704	928,704
2042	7,951,826	385,020	8,336,846	-	649,708	649,708
2043	-	-	-	-	410,126	410,126
2044	-	-	-	-	19,601	19,601
Total	$ 326,101,321	$ 112,019,417	$ 438,120,738	$ 247,436,590	$ 262,828,064	$ 510,264,654

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. Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity. The District may elect to utilize the Reserve Accounts other than as shown depending on market conditions and limitations contained in the governing resolutions. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due, however the District may elect to refinance balloon payments.
3. Interest is net of Build America Bond (BAB) direct payment Federal subsidy assumed at approximately 33 percent.

Consolidated System

UNRESTRICTED AND RESTRICTED FUND BALANCES AS OF DECEMBER 31, 2016 ($000)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 34,333	$ 1,162	$ 7,143	$ 10,170	$ 52,808
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	85,547	-	-	-	85,547
Other unrestricted funds (5)	4,581	6,851	78,528	6,312	96,272
Total unrestricted funds	174,461	8,013	85,671	16,482	284,627
Restricted funds (6)	1,562	1	21,260	7,787	30,610
Total fund balances	$ 176,023	$ 8,014	$ 106,931	$ 24,269	$ 315,237

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	2012	2013	2014	2015	2016
Original system net generation	750	573	695	481	491
Second powerhouse net generation	2,180	2,105	2,095	2,272	2,190
Total generation	2,930	2,678	2,790	2,753	2,681
Plus:					
Wanapum encroachment (1)	673	662	191	506	511
Net interchange	43	80	(27)	23	17
System losses by contract	(4)	(4)	(9)	(9)	(15)
Less:					
Canadian Treaty Power (2)	(160)	(160)	(154)	(160)	(159)
Rocky Reach Encroachment (3)	(176)	(179)	(143)	(181)	(183)
Total net power delivered (4)	3,306	3,077	2,648	2,932	2,852
Percentage allocations (5)					
Power Purchasers	50%	51%	51%	51%	51%
District	50%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,540	1,536	1,331	1,482	1,445
District	1,766	1,541	1,317	1,450	1,407
Total sales (4)	3,306	3,077	2,648	2,932	2,852
Net peaking capability	629	629	629	629	629
Availability factor	93%	90%	82%	81%	62%
Plant factor (6)	60%	56%	48%	53%	52%

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 50 percent of the power produced by the Rock Island System from 2009 through expiration of the Power Sales Contract on June 7, 2012. The District received 100 percent of the output from June 8, 2012 through June 30, 2012. Thereafter under the new Power Sales Contract, the District received a fixed 49 percent of the combined power produced by the Rock Island and Rocky Reach Systems.
6. Net Power Delivered as a percentage of rated capacity for the year.

Rock Island System

COST OF POWER COMPARISON ($/MWH)

Calendar Year	2012	2013	2014	2015	2016
Rock Island System	$ 23	$ 24	$ 30	$ 25	$ 27
Bonneville Power (1)	$ 35	$ 38	$ 38	$ 40	$ 40

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

Rock Island System
HISTORICAL AND PROJECTED ANNUAL CAPITAL REQUIREMENTS ($000)

Actual Calendar Year		**2012**		**2013**		**2014**		**2015**		**2016**
Rock Island System	$	7,335	$	3,914	$	5,663	$	11,320	$	33,708
Projected Calendar Year (1)		**2017**		**2018**		**2019**		**2020**		**2021**
Rock Island System	$	44,442	$	42,321	$	35,243	$	26,906	$	36,064

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

Rock Island System
CASH AVAILABLE FOR DEBT SERVICE ($000)

Calendar Year		**2012**		**2013**		**2014**		**2015**		**2016**
Operating revenues:										
Power Purchasers	$	41,610	$	50,314	$	53,975	$	51,201	$	51,448
District		45,514		48,315		51,831		49,166		49,402
Total revenues from sales		87,124		98,629		105,806		100,367		100,850
Other operating revenues		157		134		200		168		158
Total operating revenues		87,281		98,763		106,006		100,535		101,008
Total operating expenses (1)		48,559		47,013		53,687		50,032		54,207
Net operating revenues		38,722		51,750		52,319		50,503		46,801
Other expense		(26,803)		(28,092)		(25,823)		(24,649)		(23,930)
Net revenues		11,919		23,658		26,496		25,854		22,871
Add back:										
Depreciation		10,518		11,180		10,904		10,975		11,297
Interest expense		27,041		26,260		25,388		24,457		23,520
Amortization of deferred debt costs		130		127		271		270		290
Other (2)		431		1,497		134		165		337
Deduct:										
Amortization of deferred power sales revenue		(316)		(633)		(641)		(651)		(655)
Cash available for debt service		49,723		62,089		62,552		61,070		57,660
Annual debt service:										
Rock Island Bonds		20,612		23,646		23,022		23,422		23,421
Intersystem loans		19,242		18,234		19,186		17,668		16,246
Total debt service requirement		39,854		41,880		42,208		41,090		39,667
Cash available after payment of all debt service	$	9,869	$	20,209	$	20,344	$	19,980	$	17,993
Coverage of total debt service		1.25		1.48		1.48		1.49		1.45

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

Rock Island System

DEBT SERVICE REQUIREMENTS AS OF DECEMBER 31, 2016

Twelve Months Ending Dec. 31	Bonds		Subordinate Lien Bonds		Intersystem Loans (1)		Total Estimated Debt Service
	Estimated Debt Service	Estimated Principal Retirements (2)(3)	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	
2017	$ 22,685,000	$ 22,685,000	$ 734,756	$ 430,000	$ 16,357,379	$ 6,367,269	$ 39,777,135
2018	22,685,000	22,685,000	305,556	-	15,482,068	6,025,052	38,472,624
2019	22,685,000	22,685,000	752,556	465,000	14,849,247	5,939,072	38,286,803
2020	22,685,000	22,685,000	753,956	485,000	14,912,410	6,390,631	38,351,366
2021	22,685,000	22,685,000	754,556	505,000	14,174,292	6,078,590	37,613,848
2022	22,685,000	22,685,000	754,356	525,000	13,992,722	6,301,067	37,432,078
2023	22,685,000	22,685,000	753,356	545,000	13,986,388	6,716,574	37,424,744
2024	22,685,000	22,685,000	751,556	565,000	13,514,012	6,684,502	36,950,568
2025	22,685,000	22,685,000	753,250	590,000	13,060,229	6,673,609	36,498,479
2026	22,685,000	22,685,000	753,750	620,000	13,000,617	7,056,889	36,439,367
2027	22,685,000	22,685,000	752,750	650,000	12,999,821	7,524,936	36,437,571
2028	22,685,000	22,685,000	755,250	685,000	13,617,350	8,640,462	37,057,600
2029	12,568,000	12,568,000 (3)	147,994	111,994 (4)	9,384,242	4,864,550	22,100,236
2030	-	-	-	-	10,863,167	6,767,181	10,863,167
2031	-	-	-	-	10,348,046	6,695,273	10,348,046
2032	-	-	-	-	9,210,877	6,011,330	9,210,877
2033	-	-	-	-	9,158,162	6,361,514	9,158,162
2034	-	-	-	-	8,697,915	6,332,035	8,697,915
2035	-	-	-	-	7,726,901	5,780,869	7,726,901
2036	-	-	-	-	7,567,744	6,005,108	7,567,744
2037	-	-	-	-	7,303,721	6,141,158	7,303,721
2038	-	-	-	-	6,488,326	5,740,335	6,488,326
2039	-	-	-	-	3,091,288	2,722,826	3,091,288
2040	-	-	-	-	1,033,001	856,009	1,033,001
2041	-	-	-	-	928,704	809,808	928,704
2042	-	-	-	-	649,708	585,128	649,708
2043	-	-	-	-	410,126	383,687	410,126
2044	-	-	-	-	19,601	18,923	19,601
Total	$ 284,788,000	$ 284,788,000	$ 8,723,642	$ 6,176,994	$ 262,828,064	$ 146,474,387	$ 556,339,706

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.

Rock Island System

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

Calendar Year	2012	2013	2014	2015	2016
Operating revenues:					
Wholesale sales (1)	$ 87,124	$ 98,629	$ 105,806	$ 100,367	$ 100,850
Other operating revenues	157	134	200	168	158
Total operating revenues	87,281	98,763	106,006	100,535	101,008
Operating expenses					
Operations & maintenance	(37,279)	(35,156)	(42,462)	(38,421)	(42,273)
Taxes	(762)	(678)	(576)	(637)	(637)
Depreciation and amortization	(10,518)	(11,180)	(10,904)	(10,975)	(11,297)
Total operating expense	(48,559)	(47,014)	(53,942)	(50,033)	(54,207)
Operating income	38,722	51,749	52,064	50,502	46,801
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(19,242)	(18,234)	(19,186)	(17,668)	(16,246)
Add back depreciation and amortization	10,518	11,180	10,904	10,975	11,297
Add investment income (3)	1,430	1,524	1,767	2,079	2,370
Add CS investment income credited Power Purchasers (4)	132	-	-	-	-
Total adjustments	(7,162)	(5,530)	(6,515)	(4,614)	(2,579)
Net revenues	$ 31,560	$ 46,219	$ 45,549	$ 45,888	$ 44,222
Annual debt service					
Bonds	$ 19,650	$ 22,685	$ 22,685	$ 22,685	$ 22,685
Subordinate Bonds	962	961	337	737	736
Total debt service	$ 20,612	$ 23,646	$ 23,022	$ 23,422	$ 23,421
Debt service coverage					
Without available funds (required 1.00x)	1.53	1.95	1.98	1.96	1.89

1. Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rock Island project debt and loans of Consolidated System bond proceeds and other contractually defined amounts. Increase from 2012 to 2013 is due to new power sales contracts effective July 1, 2012.
2. Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidated System bond proceeds.
3. Investment income includes earnings from cash and investments in the Rock Island System.
4. Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.

	Bonds		Intersystem Loans (1)		
Twelve Months Ending Dec. 31	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	Total Estimated Debt Service
2017	$ 1,129,250	$ 470,000	$ 29,214,359	$ 18,496,841	$ 30,343,609
2018	1,125,750	490,000	22,110,177	12,601,324	23,235,927
2019	1,126,250	515,000	19,884,836	11,361,962	21,011,086
2020	1,125,500	540,000	18,682,912	10,813,510	19,808,412
2021	1,128,500	570,000	16,995,034	9,781,536	18,123,534
2022	1,130,000	600,000	16,995,986	10,422,550	18,125,986
2023	1,130,000	630,000	16,928,190	11,032,325	18,058,190
2024	1,128,500	660,000	16,872,091	11,669,551	18,000,591
2025	1,125,500	690,000	14,732,661	10,278,871	15,858,161
2026	1,126,000	725,000	13,050,225	9,265,300	14,176,225
2027	1,129,750	765,000	11,627,056	8,437,424	12,756,806
2028	1,126,500	800,000	10,208,263	7,550,719	11,334,763
2029	1,126,500	840,000	8,878,935	6,701,646	10,005,435
2030	1,129,500	885,000	7,463,981	5,721,337	8,593,481
2031	1,130,250	930,000	6,054,618	4,687,783	7,184,868
2032	1,128,750	975,000	4,803,146	3,750,061	5,931,896
2033	1,130,000	1,025,000	4,220,632	3,448,158	5,350,632
2034	364,300	310,550 (3)	3,961,897	3,444,978	4,326,197
2035	-	-	2,638,751	2,331,708	2,638,751
2036	-	-	1,388,256	1,251,761	1,388,256
2037	-	-	289,191	239,572	289,191
2038	-	-	289,191	258,335	289,191
2039	-	-	146,202	135,641	146,202
Total	$ 19,540,800	$ 12,420,550	$ 247,436,590	$ 163,682,893	$ 266,977,390

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

Rocky Reach System

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

Calendar Year	2012	2013	2014	2015	2016
Operating revenues:					
Wholesale sales (1)	$ 87,284	$ 91,361	$ 92,554	$ 96,575	$ 109,610
Other operating revenues	176	231	561	208	204
Total operating revenues	87,460	91,592	93,115	96,783	109,814
Operating expenses					
Operations & maintenance	(35,946)	(41,140)	(43,080)	(48,493)	(64,112)
Taxes	(1,522)	(1,336)	(1,335)	(1,235)	(1,251)
Depreciation and amortization	(16,942)	(16,652)	(16,512)	(16,634)	(16,951)
Total operating expenses	(54,410)	(59,128)	(60,927)	(66,362)	(82,314)
Operating income	33,050	32,464	32,188	30,421	27,500
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(30,991)	(30,450)	(30,535)	(30,852)	(30,404)
Add back depreciation and amortization	16,942	16,652	16,512	16,634	16,951
Add investment income (3)	271	228	395	555	782
Total adjustments	(13,778)	(13,570)	(13,628)	(13,663)	(12,671)
Net revenues	$ 19,272	$ 18,894	$ 18,560	$ 16,758	$ 14,829
Annual debt service	$ 2,641	$ 2,640	$ 2,615	$ 1,128	$ 1,127
Debt service coverage					
Without available funds (required 1.00x)	7.30	7.16	7.10	14.86	13.16

1. Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rocky Reach project debt and loans of Consolidated System bond proceeds and other contractually defined amounts.
2. Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidated System bond proceeds.
3. Investment income includes earnings from cash and investments in the Rocky Reach System.

THE INFORMATION SET FORTH BELOW RELATING TO THE POWER PURCHASERS WHICH ARE SUBJECT TO THE INFORMATIONAL REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT") HAS BEEN OBTAINED FROM DOCUMENTS FILED BY SUCH POWER PURCHASERS WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"). THE DISTRICT MAKES NO REPRESENTATION AS TO, NOR HAS IT ATTEMPTED TO VERIFY, THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (Puget Energy) is an energy services holding company incorporated in the state of Washington in 1999. Substantially, all of its operations are conducted through its regulated subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy also has a wholly-owned non-regulated subsidiary, named Puget LNG, LLC (Puget LNG). Puget LNG, was formed on November 29, 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility. Puget Energy and PSE are collectively referred to herein as "the Company." The Company's principal executive offices are located at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company's internet web sites at: www.pugetenergy.com and www.pse.com.

Puget Energy is the direct parent company of PSE, the oldest and largest electric and natural gas utility headquartered in the state of Washington, primarily engaged in the business of electric transmission, distribution and generation and natural gas distribution. Puget Energy's business strategy is to generate stable earnings and cash flow by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy does not have any employees and PSE had approximately 3,000 full time employees as of December 31, 2016.

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, 2016, PSE had approximately 1,128,700 electric customers, and approximately 814,600 natural gas customers. In 2009, Puget Holdings LLC (Puget Holdings) completed its merger with Puget Energy. Puget Holdings is owned by a consortium of long-term infrastructure investors including Macquarie Infrastructure Partners I, Macquarie Infrastructure Partners II, Macquarie Capital Group Limited, FSS Infrastructure Trust, the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation and the Alberta Investment Management Corporation. All of Puget Energy's common stock is indirectly owned by Puget Holdings.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Puget Energy, are incorporated by reference herein: 1. The Company's Form 10-K for the year ended December 31, 2016 filed March 2, 2017 and any other such reports.

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

ALCOA CORPORATION

General

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

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

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

Alcoa is a global company with 43 operating locations across 10 countries. Alcoa's operations consisted of six reportable segments for 2016: Bauxite, Alumina, Aluminum, Cast Products, Energy, and Rolled Products.

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

Separation Transaction

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

On September 29, 2016, the ParentCo Board of Directors approved the distribution of 80.1% of Alcoa Corporation's issued and outstanding shares of common stock on the basis of one share of Alcoa Corporation common stock for every three shares of ParentCo common stock held as of the close of business on October 20, 2016, the record date for the distribution (the "Distribution").

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Alcoa, are incorporated by reference herein: Alcoa's Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 10, 2017 and any other such reports. In addition, all documents filed by Alcoa pursuant to Section 13, 14 or 15(d) of the Exchange Act after the date of this filing shall be deemed to be incorporated by reference herein and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this filing to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this filing. Alcoa will provide to each person to whom a copy of this filing has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference herein, other than exhibits to such documents. Requests for copies of the documents referred to above, other than exhibits to such documents, may be directed to: Secretary, Alcoa Corporation, 390 Park Avenue, New York, New York, 10022-4608.


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