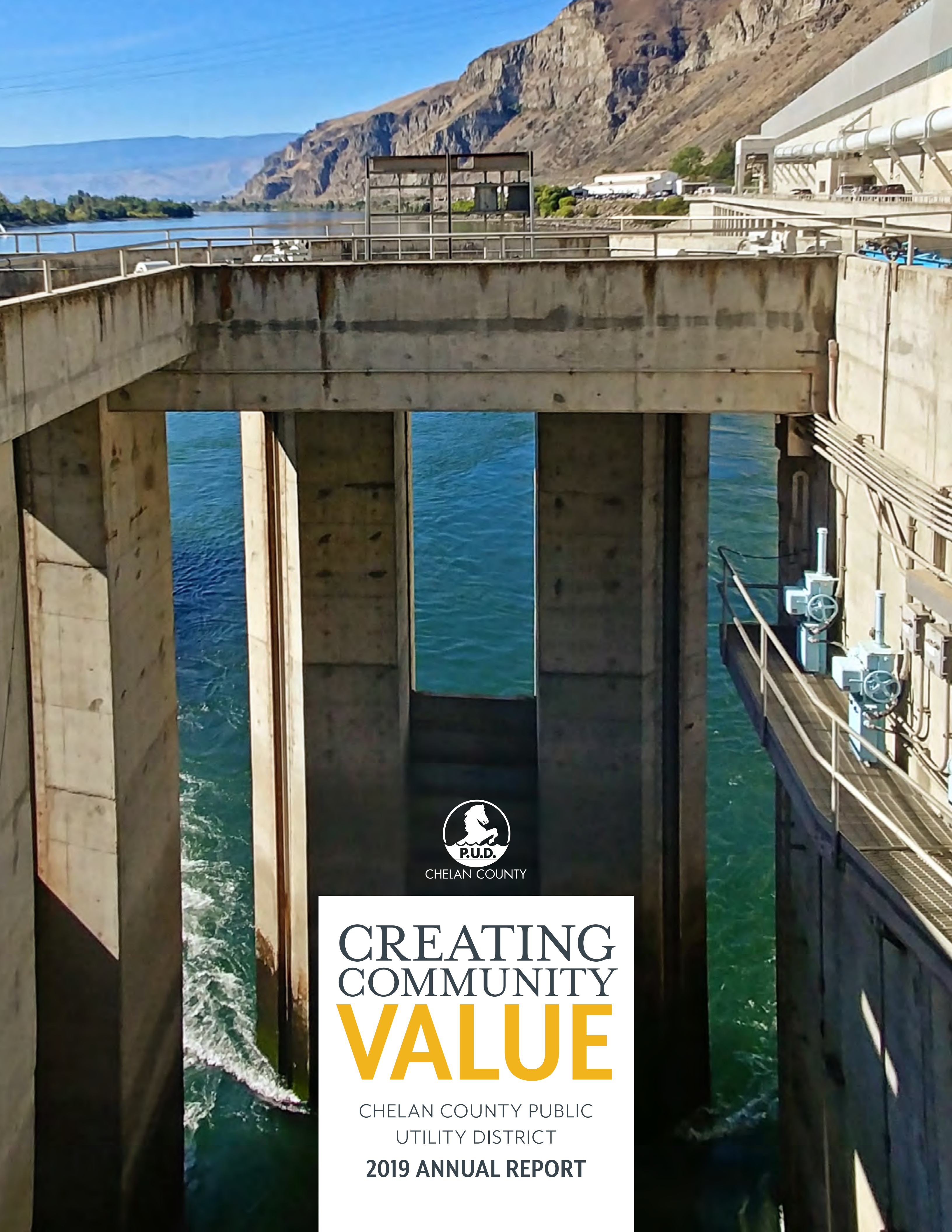


CHELAN COUNTY P.U.D.

CREATING COMMUNITY VALUE

CHELAN COUNTY PUBLIC UTILITY DISTRICT

2019 ANNUAL REPORT

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 more than 50,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services while selling surplus electric power that serves customers across the West.

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 4-14 of the 2019 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:* ***chelanpud.org***

CREATING COMMUNITY VALUE

DANIEL BUCHANAN, JOURNEYMAN PLANT MECHANIC, CHECKS THE RIGHT BANK FISHWAY AT ROCK ISLAND DAM.

MISSION

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

VISION/CHALLENGE

In a rapidly changing utility environment, we will provide: *The Best Value for the Most People for the Longest Time*.

OUR VALUES

SAFETY

Protect public and employee health and safety

STEWARDSHIP

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

TRUSTWORTHINESS

Competence, integrity, respect, collaboration

OPERATIONAL EXCELLENCE

High-quality, innovative work execution through supporting personal accountability

TABLE OF CONTENTS

VALUING OUR COMMUNITY

General Manager Steve Wright

At Chelan County PUD, we're committed to bringing the best value to the most people for the longest time. This vision guides us as we work to enhance the quality of life in our community.

In 2019, we experienced another strong financial year, and ended the year with **more cash than debt**. As an indicator of our prudent decision-making, Fitch Ratings and Standard & Poor's **reaffirmed our AA+ bond rating**. We remain among the most highly-rated utilities in the U.S. — by both rating agencies.

Last year, we also completed one of our most significant efforts as we engaged the community in an extensive strategic planning process. Through numerous public meetings, topic team committees, special events and surveys, we received ideas from thousands of our customer-owners that will guide us in the coming years.

During our outreach, our customers told us that while our finances are strong, they prefer we protect against wholesale energy market uncertainty through smaller, annual rate adjustments rather than deferring them with a risk of higher increases in the future. Even with these annual increases — starting with a 3% increase for residential electric service in 2020 — **our rates will remain among the lowest in the country**.

> "… our rates will remain among the lowest in the country."

The PUD continues to support regional growth needs. Last year, we **connected nearly 1,000 new electric** service customers, one of the highest numbers of connections in our utility's history. We also worked with new businesses to ensure our electrical system meets their energy needs. One of our newest and largest customers, the Diamond Foundry, a gemstone manufacturer with high density power needs, will support our local economy with more family wage jobs.

> "The PUD continues to support regional growth needs."

In the spring, we entered into a five-year contract with Microsoft to **bring 100% carbon-free hydropower to its Puget Sound campuses**. It also created a partnership to study ways of extending broadband to the most remote and challenging areas of our county. We have set a goal of providing access to 85% of the county and potentially more.

> "… we'll aggressively pursue modernization efforts that will protect these assets."

During 2019, we also made progress on a multi-year program to upgrade our hydropower dams and our network of substations. Over the next several years, we'll aggressively pursue modernization efforts that will protect these assets over the long term for our customers.

We're keenly **focused on safety and human performance improvement** throughout our organization. We've made great progress to create an environment in which **learning is a priority** to build defenses that reduce or eliminate hazards, injuries and at-risk behaviors. We've seen a very positive **downward trend in safety incidents** as a result of our efforts.

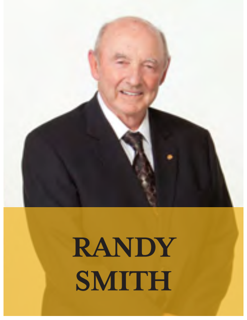
On behalf of Chelan PUD, I'm proud to share the many accomplishments of this past year, and I look forward to sharing more successes with you in the coming years.

Leadership guided by values

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

DENNIS BOLZ

Commissioners also **support public power by serving** on regional and national organizations that **advocate for consumer-owned utilities and sustainable energy**. In 2019, Commissioner Randy Smith was elected president of the Washington PUD Association and Commissioner Dennis Bolz received the group's highest honor, the Lifetime Achievement Award, recognizing his **commitment to the philosophy and purpose of public power and water** and his fellow PUD commissioners.



RANDY SMITH

FROM LEFT: DENNIS BOLZ, RANDY SMITH, GARRY ARSENEAULT, ANN CONGDON AND STEVE McKENNA

2019 AT A GLANCE

Strong finances – more value

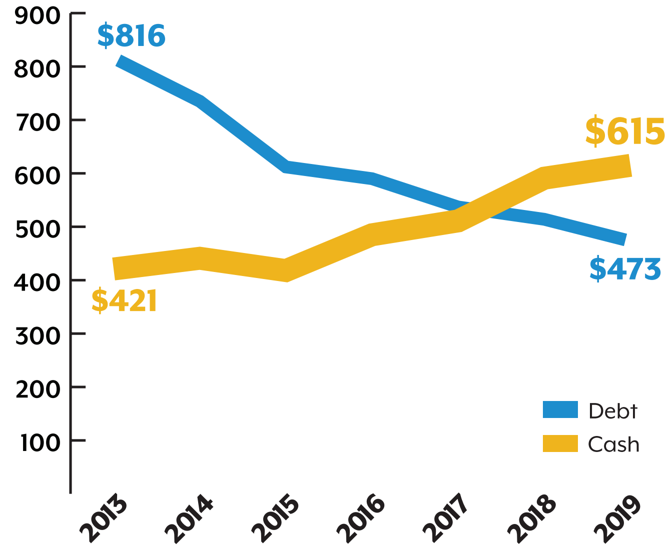
Chelan PUD's strong financial performance continues to create value for customer-owners.

All key financial **targets were met** in 2019, and positive bottom line results continue to be used for **significant investments in the PUD's dams and utility systems**.

Unique factors included an insurance settlement for the large units at Rocky Reach Dam and surplus proceeds from a long-term power contract.

Both contributed to a **positive bottom line of $114 million**, about $36 million better than budget.

Cash & Debt Balances
(amounts in millions)

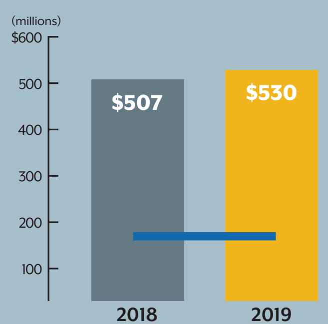


Chelan PUD continues to hold more cash than debt and is among the highest-rated customer-owned utilities in the nation.

We measure the District's financial stability in four ways.
Chelan PUD EXCEEDED targets for all four in 2019.

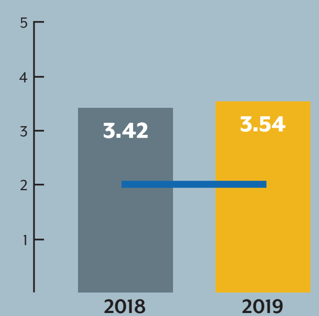
Financial liquidity
Target: Minimum of $175 million

Represents cash reserves to cover risks and provide additional financial stability



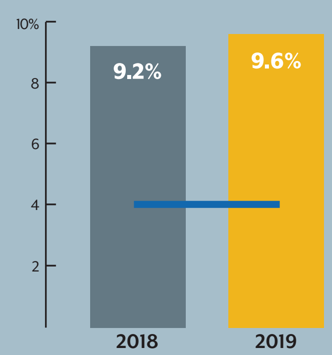
Debt service coverage
Target: Greater than 2.0

Demonstrates the ability to meet debt obligations even under unusual conditions



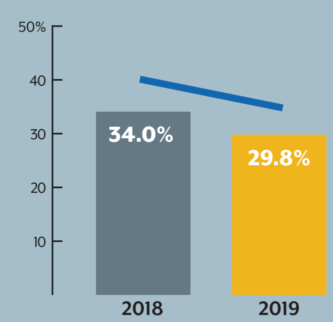
Rate of return
Target: Greater than 4 percent

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



Debt ratio
Target: Less than 35 percent for 2019

Reflects the percentage of utility assets financed by debt



Target line

CREATING COMMUNITY VALUE

BOND RATINGS

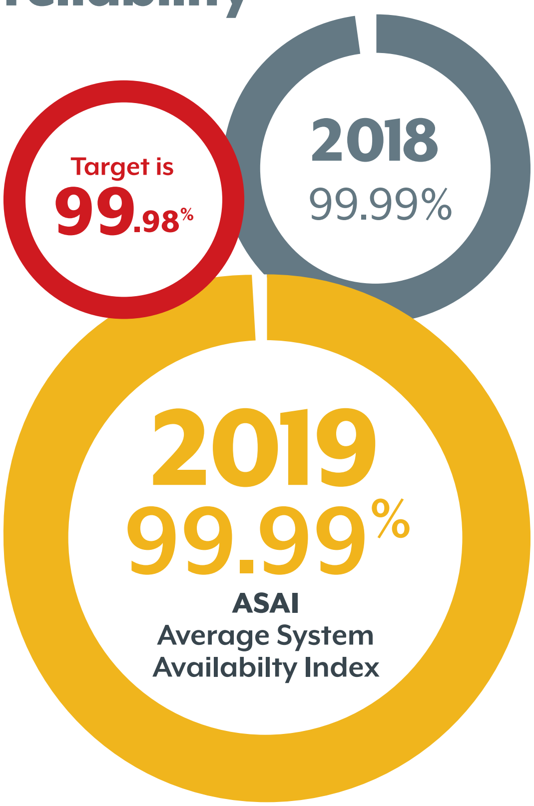
Fitch Ratings .... AA+
Standard & Poor's......................... AA+
Moody's Investors Service Aa3

As of Dec. 31, 2019

1,872 Miles of distribution lines

323 Miles of transmission lines

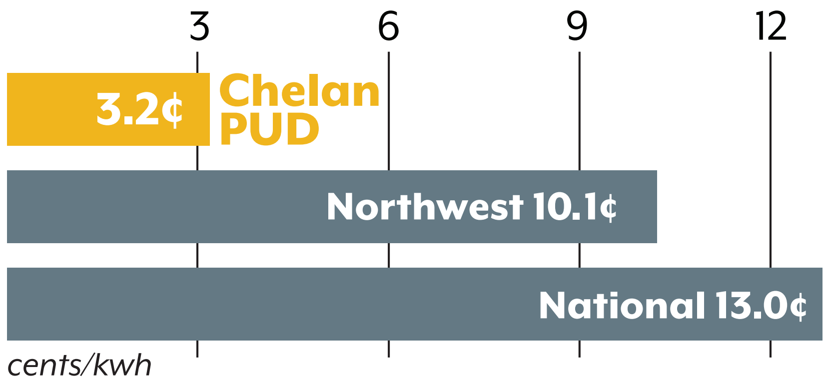
Electric system reliability



3.2¢

Average residential rate per kilowatt hour in 2019:

No electric rate increase for 8 years



Number of retail electric customers **52,146**

17,493 Number of fiber end-user connections

Number of water/wastewater customers **6,797**

$9.7 million paid in operating tax expense

HIGHLIGHTS

Providing the best value for the most people for the longest time

In October 2019, Chelan PUD commissioners unanimously approved the utility's new strategic plan, based on customer-owner response to six key topics. Priorities for the next five years are:

- **Invest in assets and people** and seek industry top-quartile performance for hydro generation, retail reliability and safety while **improving customer service technology**
- Sustain excellent **financial resiliency** while mitigating the risk of large rate increases
- Enhance the quality of life in Chelan County through programs that **distribute the benefits of public power**
- Engage in countywide **growth planning and job creation** while ensuring the District's rates and policies are stable and predictable

Chelan PUD will continue the Public Power Benefit program, including the broadband network expansion.

April 12, 2019

Microsoft expands clean energy, connectivity investments in Washington state with Chelan County PUD

Microsoft Corp. today announced new agreements to **boost clean energy and connectivity** in Washington state. The two agreements with Chelan County Public Utility District (PUD) will see Microsoft receive carbon-free electricity to power its Puget Sound campuses and partner with the PUD on broadband connectivity in Chelan County.

Through the five-year power supply agreement, Microsoft will receive hydropower from Chelan PUD that meets the high bar for carbon-free and clean energy.

The two organizations also signed a memorandum of understanding to collaborate on efforts to **expand broadband service** in the most challenging, most rural parts of Chelan County.

June 6, 2019

Sustainable hydropower and strategic planning bring new jobs

Diamond Foundry executives and Chelan County leaders gathered to **celebrate the 35-50 jobs** that the gemstone manufacturer's new operation will bring to the area.

The diamond manufacturer is leasing space from Stemilt in Wenatchee for its new plant. Chelan County PUD is **supplying up to 19 megawatts of carbon-free power** for the operation under the District's new high density load rate.

The new jobs are another **benefit of public power for the local economy**. "This contract is the fruit of our last strategic planning process where our community prioritized a balanced approach to economic development and minimizing impacts to existing customers," said PUD General Manager Steve Wright.

(FROM LEFT TO RIGHT) CHELAN PUD GENERAL MANAGER STEVE WRIGHT, DIAMOND FOUNDRY PRODUCTION PRESIDENT KYLE GAZAY AND STEMILT GROWERS PRESIDENT WEST MATHISON ANSWER QUESTIONS BEFORE SIGNING THE PUD POWER SUPPLY CONTRACT.

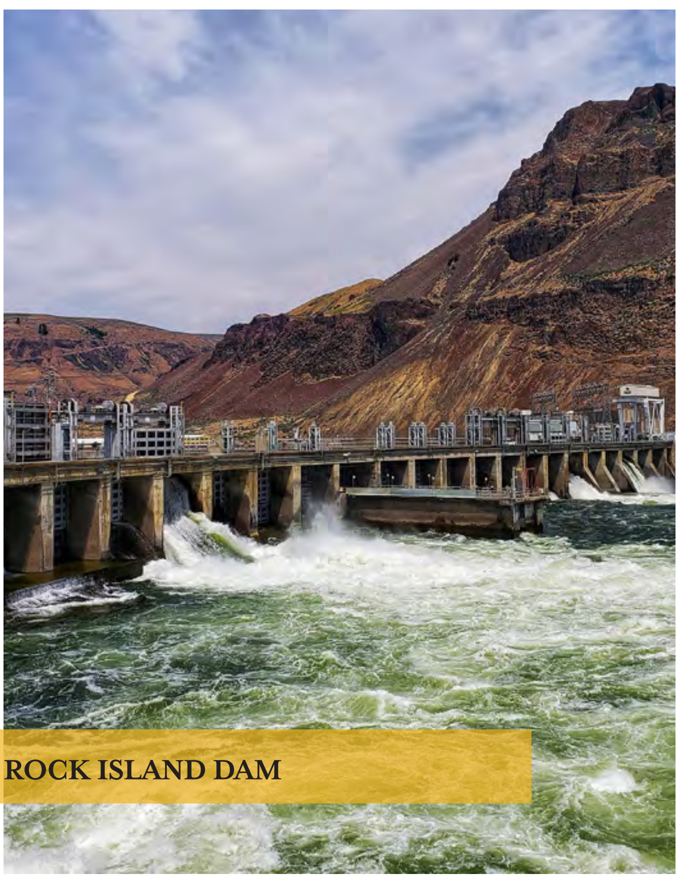
Aug. 23, 2019

New FERC approach for setting license terms to maximize value of Rock Island Dam investments

Chelan PUD's leadership role to advocate for new legislation, engage with regulators and move to improve its hydropower operations has produced tangible **benefits for its customers** and other U.S. power producers.

Federal dam regulators have indicated that Chelan PUD's significant investments in powerhouse upgrades and spillway safety at Rock Island Dam qualify for **"early action credit"** toward its next operating license.

The positive ruling is expected to help Chelan PUD take actions earlier that bring value for its customers and ensures the Federal Energy Regulatory Commission (FERC) will consider these significant investments toward a maximum, 50-year term for Rock Island's new license starting in 2029.



ROCK ISLAND DAM

GM STEVE WRIGHT AND RON AUGER, NETWORK OPERATIONS SUPERVISOR, RIGHT, CELEBRATE WITH THE CREW.

Oct. 31, 2019

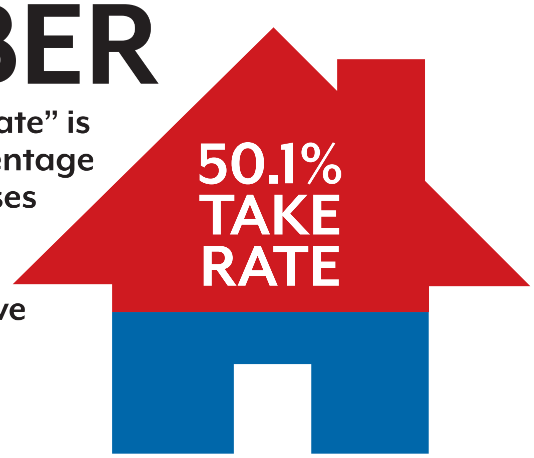
Half of homes & businesses with PUD fiber access are connected

Chelan County PUD's world-class broadband has reached a **50-percent "take rate"** of locations with access taking service from retail providers — an industry milestone.

76 percent of the county now has access to super-fast internet, phone and TV services. Chelan PUD is building access to 85-90 percent of county homes and businesses under the **Public Power Benefit** program.

FIBER

A "take rate" is the percentage of premises served by fiber with active service.



POWER ON

Creating carbon-free value

Strategic priority No. 1 is investing in Chelan PUD's hydropower assets to generate lasting value.

Our three dams create carbon-free power and environmental, economic and recreational benefits for customer-owners, Chelan County and the Pacific Northwest.

Lake Chelan Dam

.3 MILLION MEGAWATT HOURS GENERATED

2 GENERATORS, 59 MEGAWATT CAPACITY*

The historic powerhouse ran well following several plant upgrades finished in 2018.

Our federal license to operate the dam runs through 2056.

Rocky Reach Dam

5.1 MILLION MEGAWATT HOURS GENERATED

11 GENERATORS

1,300 MEGAWATT CAPACITY*

Work continued to repair a design flaw and restore adjustable turbine blade operation on the second of four large units. Restoring the ability to adjust turbine blades (Kaplan blades) protects fish better and makes power more efficiently. The units have been running with fixed blades in the interim.

Crews also started installing turbine hub bushings on the seven original units with work planned to finish by 2022.

Our federal license to operate the dam runs through 2052.

Rock Island Dam

2.3 MILLION MEGAWATT HOURS GENERATED

2 POWERHOUSES, 18 GENERATORS (PLUS 1,000 KW HOUSE UNIT)

629 MEGAWATT CAPACITY*

Work continued in Powerhouse 1 rehab, due to finish in 2022, and on preparations to rehab the bulb turbines in Powerhouse 2 starting in 2021.

Our federal license to operate the dam runs through 2028.

**Generator nameplate capacity*

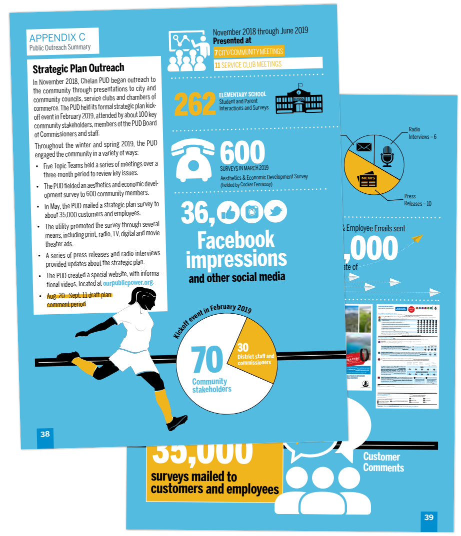
SUSTAINABILITY

As good stewards of the resources in our care, we support sustainable actions in relationships and operations.

Strategic Plan Outreach

The strategic plan for 2020-2024 reflects commissioners' vision to provide *the best value for the most people for the longest time.* Customer-owners were involved at every step, including:

- **70 community stakeholders and 30 district staff** and commissioners at kickoff event in February
- From November 2018 to June 2019, we presented at **7** City/Community meetings and **11** Service Club meetings.
- 35,000 surveys mailed to customers and employees, with **3,700+ customer comments**
- **36,000** Facebook and other social media impressions


APPENDIX C
Public Outreach Summary

Strategic Plan Outreach

In November 2018, Chelan PUD began outreach to the community through presentations to city and community councils, service clubs and chambers of commerce. The PUD held its formal strategic plan kick-off event in February 2019, attended by about 100 key community stakeholders, members of the PUD Board of Commissioners and staff.

Throughout the winter and spring 2019, the PUD engaged the community in a variety of ways:

- Five Topic Teams held a series of meetings over a three-month period to review key issues.
- The PUD fielded an aesthetics and economic development survey to 600 community members.
- In May, the PUD mailed a strategic plan survey to about 35,000 customers and employees.
- The utility promoted the survey through several means, including print, radio, TV, digital and movie theater ads.
- A series of press releases and radio interviews provided updates about the strategic plan.
- The PUD created a special website, with informational videos, located at ourpublicpower.org.
- Aug. 20 - Sept. 11 draft plan comment period

November 2018 through June 2019
Presented at
7 CITY/COMMUNITY MEETINGS
11 SERVICE CLUB MEETINGS

262 ELEMENTARY SCHOOL Student and Parent Interactions and Surveys

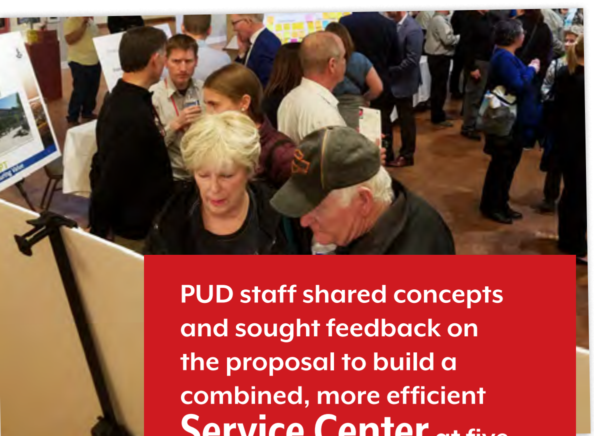
600 SURVEYS IN MARCH 2019
Aesthetics & Economic Development Survey (fielded by Cocker Fennessy)

36,000 Facebook impressions and other social media

Kickoff event in February 2019
70 Community stakeholders
30 District staff and commissioners

38

Radio Interviews – 6
Press Releases – 10
Employee Emails sent
,000
35,000 surveys mailed to customers and employees
Customer Comments
39

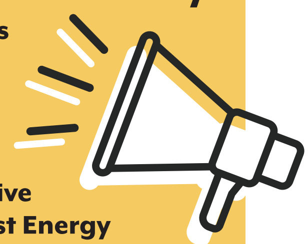


PUD staff shared concepts and sought feedback on the proposal to build a combined, more efficient **Service Center** at five open houses in March. Staff also visited with community members at service clubs and board/council meetings and other gatherings points.

66%

Energy efficiency programs offered by Chelan PUD increase comfort and help customers save money. In 2019, **we saved 66% more than the state mandate**, allowing us to sell more wholesale energy and increase revenue to keep retail rates low and invest in our dams, power grid and technology.

Valued leaders in energy efficiency



Chelan PUD's Josh Mitchell was one of several utility advocates to receive the Northwest Energy Efficiency Alliance's Leadership in Energy Efficiency Award for Collaboration in 2019. Mitchell, a residential energy adviser, helps customers save energy in their homes by troubleshooting problems and identifying cost-cutting rebates. He even makes house calls.

Downtown lights up

14 N. Wenatchee Ave has been transformed from an outdated retail building to an inviting (and successful) co-working space, now named The Mercantile. The project's local owners used Chelan PUD rebates to help pay for the energy-saving lighting, lighting controls, windows and thermostats.

75%

The PUD will pay for up to 75% of an efficiency project's cost, based on projected energy savings.

JOSH MITCHELL

VALUE IN RELATIONSHIPS

Each year, we are proud to host education and community events that bring value to our vibrant community. In 2019, the PUD supported more than 30 events that **connected us with more than 17,000** of our customer-owners.

17,000

Chelan PUD is committed to **reaching more of our customer-owners directly**. In 2019 we had:

Social media impressions on PUD videos in Spanish:
74,000

60%
PUD materials produced in both English and Spanish. Up 10% since 2016.

Social media impressions on Spanish messages and outage alerts:
36,000

Fiber network Outreach

110 customers attended meetings in Leavenworth, Entiat and Manson to help guide future construction.

PAPERLESS IS POPULAR

Powerpay

PowerPay gives customers the convenience of getting their **bill by email** and **saves paper**.

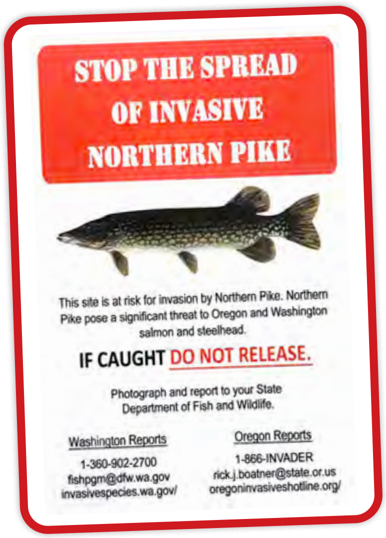
PUD customers enrolled
16,928

Collaborating on conservation

4,000

Working alongside our cities and Chelan County, the PUD helped to **replace over 4,000 streetlights with new LED** lamps in 2019. Switching to LEDs is estimated to save 0.4 average megawatts of electricity a year — enough to light 150 homes.

WE VALUE OUR ENVIRONMENT



Chelan PUD is a dedicated steward of the resources touched by our hydropower operations

Chelan PUD joined a coalition of agencies to fight the spread of salmon and steelhead's newest adversary in the Columbia River: the voracious Northern Pike. The PUD has partnered with Colville Confederated Tribes, the Spokane Tribe, Washington Department of Fish and Wildlife, and others to develop best practices aimed at reducing the threat from these "ambush predators."

Last year, the PUD's resident fish program brought more than 200,000 fish to 20-plus lakes in Chelan and Douglas Counties. These fish are raised at the Chelan and Eastbank hatcheries. The program is a responsibility of our federal licenses to operate Lake Chelan and Rocky Reach dams.

65,200 KOKANEE
99,380 RAINBOW TROUT
49,430 CUTTHROAT

JANE ROHMAN AND DEBBIE GALLAHER AT THE 2019 INNOVATOR AWARDS.

EDUCATION INNOVATORS

Rocky Reach's dynamic duo of Debbie Gallaher and Bob Bauer were honored as STEM Champions at Greater Wenatchee Area Technology Alliance's 2019 Innovator awards. For over 15 years, Debbie and Bob have built **high-quality STEM (Science Technology Engineering and Math) programs** like Summer Science and the Hydropower and STEM Career Academy through partnerships with public power peers, community groups and school districts.

2,000 students a year

LOOKING AHEAD

NEW SERVICE CENTER TO BRING EFFICIENCY & BETTER CUSTOMER SERVICE

In a unanimous decision, PUD commissioners decided in April that combining Wenatchee-area customer and utility operations at a **new location in Olds Station** offered **the best value and customer service** for the most people over the next 50 to 100 years.

The decision comes after four years of study that grew out of strategic planning.

Groundbreaking is set for late summer 2020.

Journey to new Discovery Center

More than 500 people bid farewell to the Museum of the Columbia and helped Rocky Reach **Discovery Center launch the first renovations** since the center opened in the early 1960s.

Here's what's ahead:

- *Year-round programs*
- *Expanded and updated exhibits in the Discovery Center*
- *Big new windows in fish viewing*
- *Hands-on displays and exciting new ways to experience the Columbia River*

A grand "re-opening" is planned for summer 2021.

DATA-DRIVEN BENEFITS

Developing and putting new **"technology roadmaps"** in place are among the key elements to implement the five-year business plans that support the 2020-2024 strategic priorities.

Plans are taking shape to add technology needed to **improve customers' experience**, monitor and supply data crucial for **good decision-making**, strengthen Information Technology systems and provide employees access in the field.

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, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Public Utility District No. 1 of Chelan County, Washington as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 17 through 23 and the required supplementary information on pages 53 through 55, 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 schedules 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 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 80 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

April 10, 2020

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, 2019 and 2018. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- The District produced a positive change in net position of $114 million during 2019, $36 million more than budget for the year and $9 million higher than the prior year's results of $105 million. The District continued to achieve strong operating results while meeting strategic priorities to invest in utility assets and employees, pay down debt and continue Public Power Benefit projects. The renewable, carbon-free benefits of the hydropower the District generates and sells on the wholesale market helped support revenue. Long-term contract proceeds in excess of budgeted amounts were a primary driver of the $114 million bottom-line results. Lower-than-expected operating expenses and increased interest earnings made additional contributions.
- Standard & Poor's Global Ratings (S&P) affirmed the District's Consolidated System debt AA+/Stable Ratings and continued to rate the District among the top customer-owned utilities in the nation. S&P called out several "extremely strong" financial positions including a debt ratio of 34 percent and electric rates that are among the lowest in the nation. High bond ratings ultimately keep rates lower for customer-owners. They also could bring lower interest rates if the District moves ahead on borrowing money to invest in its valuable hydropower and grid assets.
- Fitch Ratings affirmed the District's consolidated system debt rating of AA+ with a stable outlook. The District continued to be one of the handful of AA+ rated utilities in the nation. Highlighted strengths included a sizable portfolio of valuable hydro generating resources; production of exceptionally low-cost power; solid revenue defensibility due to strategies to hedge price, hydro and counterparty risk; very strong retail rate flexibility with the independent ability to adjust rates that are among the most competitive and affordable in the nation; very robust financial flexibility through prudently using margin from wholesale sales to reduce debt leverage and accumulation of cash reserves near historical highs in preparation for increased capital spending.
- In 2019, the District entered into two agreements with Microsoft. The first agreement is a five-year contract providing Microsoft with electricity from its hydropower resources to power its Puget Sound campuses. The District began supplying power to Microsoft in April. Under the agreement, Microsoft receives power from the District that meets the high bar for carbon-free and clean energy. It also keeps carbon-free power generated in Washington State within the state, delivering economic and environmental benefits for Chelan County, the greater Seattle area and the state. No additional infrastructure is required in the District's service area to send power from the District to Microsoft. The two organizations also signed a memorandum of understanding to collaborate on efforts to expand broadband service in the most challenging, most rural parts of Chelan County. Microsoft will bring technical assistance to this effort, supporting the District's desire to expand technology access to remote parts of Chelan County.
- District commissioners approved three agreements with Stemilt Growers to accommodate power needs for Diamond Foundry, a gemstone manufacturer setting up new operations with a mission of growing diamonds with net zero carbon footprint. Stemilt is leasing space to Diamond Foundry in Wenatchee. Under one agreement, a new substation will be constructed to provide up to 19 megawatts of power to Diamond Foundry. Current substation capacity would not meet the increased energy demand. This prompted Stemilt to propose that it build the substation with design and engineering review by the District. While typically 18 months is required to energize a new substation once transformers are ordered, this project is slated for completion in less than a year. Two other agreements set up leases to allow for the substation construction. The District will lease land to Stemilt to build the substation, and Stemilt will lease land to the District for storage of utility materials and

equipment. The public-private partnership will create economic development benefits for Chelan County including the creation of 35 to 50 jobs in Wenatchee supporting customer-owner priorities and strategic planning objectives.

- In 2019, repairs continued on the second of four large units at Rocky Reach Dam. The discovery of a crack in a servo-rod of one of the large units in 2013 launched the project. Long-term repairs on the first unit, C-8, now back in service, started in June 2015. The second unit, C-9, has undergone similar long-term repairs and was returned to service in January 2020. The repairs on the remaining units are scheduled to begin in 2021 and are estimated to take 12 months each. C-8 and C-9 are expected to run reliably for their 30-year design life. The District maintains insurance coverage for both lost revenue and eligible repair expenditures. The District's insurance company made partial payments for both mechanical breakdown and business interruption claims in previous years. During 2019, the District received $16.3 million and $1.7 million as final settlement of the claims under the mechanical breakdown and business interruption policies, respectively. The insurance claims have been fully settled, and no additional proceeds will be received.
- Work continued on the B5-B10 modernization project in the first powerhouse at Rock Island Dam. The fourth unit, B7, is scheduled to be completed in late 2020. Modernization work on units B6, B9 and B10 was completed in prior years, but these units suffered various turbine failures over the last year. The contractor completed a root cause analysis of the failures, and remedies and costs were negotiated. Repairs, re-work and modernization for all of the B5-B10 units are anticipated to be complete prior to the end of 2022. The original four generating units in the first powerhouse at Rock Island Dam were taken out of service in early 2016 due to corrosion fatigue on the blades following 80-plus years of service. Work began in 2018 and currently is scheduled to be completed by the end of 2021, with the first unit, B4, expected back in service mid-2020. Extensive analysis reviewed by the Board of Commissioners in 2017 showed it was cost-effective to also rehabilitate major components, such as turbines, generators and related equipment, of the eight 1970s-era units in the second powerhouse at Rock Island Dam. This work should provide at least 40 years of additional use. The overall project is estimated at $324 million and will be reevaluated at regular intervals to confirm the plan. Plans include purchasing one new generator and certain major components to prevent delays in the project. Work is expected to start in 2021 and finish in 2029.
- District Commissioners approved a new rate for cryptocurrency, blockchain and similar operations effective April 1, 2019. The District lifted the moratorium and began to accept new cryptocurrency service applications on that date. In March 2018, Commissioners imposed an application moratorium for electric service for cryptocurrency mining. The decision came after reviewing impacts on utility operations from existing loads and applications for service. Impacts from cryptocurrency mining applications were hampering responses to the District's overall planned work and threatening the county's electric grid capacity to meet planned growth. The new rate, plus fees and charges, strives to have operators carry the cost and risks – operational and financial – of providing the power. The rate will allow the District to serve cryptocurrency operations while protecting other customers from the uncertainty and volatility of the cryptocurrency industry.
- The first Coronavirus case in the United States was confirmed in January 2020 and the first virus-related death occurred in February 2020, both in Washington State. In March, Governor Jay Inslee instituted initial restrictions to close schools, restaurants and entertainment venues and then proclaimed a "Stay Home-Stay Healthy" statewide stay-at-home order that closes business and other public places through May 4, 2020, with the intention of slowing the spread of the virus. Essential services will stay open. President Trump also declared a national emergency as a result of the outbreak. In response to this crisis, the District established an incident command structure and set the priorities of protecting employee health, community health and maintaining essential utility services. Proactive measures have been implemented to protect

the District and its customers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing "social distancing" measures for the District's on-site essential staff and curtailing projects and maintenance to essential projects that can be completed with minimal contact between employees. The District has also declared that it will not disconnect utility service from customers for failure to pay or charge late fees during the Outbreak of COVID-19. The District is also considering other actions to assist with Community impacts including the potential to delay certain of the above-mentioned rate increases by 6 months. These collective actions may impact operational and financial results for the District in 2020, but did not impact financial results for 2019. The extent to which the coronavirus impacts our business and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. As a result of this coronavirus outbreak, demand is expected to decline. If the coronavirus outbreak continues and efforts to contain the virus, whether governmental or otherwise, further limit usage for an extended period of time or impacts our ability to operate, our results could be adversely impacted.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

The District's total net position increased by $114 million in 2019 and $105 million in 2018, despite low streamflow conditions in 2019 and the continuing operating challenges of generating unit repairs at Rocky Reach and Rock Island, demonstrating the effectiveness of risk management plans and strong financial policies. The increases are primarily due to continued strong operating results stemming from the District's hedging program, real-time agreement and long-term power sales contracts. The hedging program requires locking in predictable revenue through the sale of excess energy under both forward block transactions and slice contracts and is proving to be successful at providing rate stability and meeting financial goals. Other factors that contributed to the favorable results included additional proceeds from a long-term power sales agreement, insurance proceeds from a settlement for large unit repair work at Rocky Reach, continued debt reduction that lowered interest expense and increased interest earnings on higher cash and investment balances.

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2019	2018	2017	Increase (Decrease) 2019 – 2018
Current assets	$ 190	$ 177	$ 168	$ 13
Net utility plant	1,184	1,146	1,101	38
Other non-current assets	520	518	439	2
Total assets	1,894	1,841	1,708	53
Deferred outflows of resources	12	12	14	-
Current liabilities	126	133	117	(7)
Long-term debt	438	481	507	(43)
Other liabilities	180	202	170	(22)
Total liabilities	744	816	794	(72)
Deferred inflows of resources	50	39	35	11
Net Investment in capital assets	703	625	560	78
Restricted	186	118	146	68
Unrestricted	223	255	187	(32)
Total net position	$ 1,112	$ 998	$ 893	$ 114

(amounts in millions)	2019	2018	2017	Increase (Decrease) 2019 – 2018
Operating revenues	$ 385	$ 386	$ 373	$ (1)
Less				
Operating expenses	265	269	251	(4)
Other and expenses	12	18	22	(6)
Net income before capital contributions	108	99	100	9
Capital contributions	6	6	5	-
Change in net position	114	105	105	9
Total net position — beginning of year	998	893	788	105
Total net position — end of year	$ 1,112	$ 998	$ 893	$ 114

ASSETS

Current assets increased by $13 million in 2019 as a result of the District's positive 2019 operating results. Cash generated by operations exceeded payments for debt reduction and capital expenditures, resulting in higher cash and investment balances.

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

As of December 31, 2019, the District had approximately $1.2 billion invested in a variety of capital assets. Net utility plant increased $38 million in 2019, reflecting additional investments in utility plant assets. Additions included a variety of electric transmission and distribution system services and improvements, ongoing modernization and construction of a storage building at the Rock Island hydroelectric project, purchase of property for the future construction of a District new service facility and the upgrade of the Peshastin wastewater treatment facility. The 2019 additions were partially offset by annual depreciation of plant in service.

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

Other noncurrent assets, which includes noncurrent restricted assets and other assets, increased $2 million in 2019 due primarily to higher investment balances as a result of the District's positive operating results. Other noncurrent assets increased $79 million in 2018. The increase was primarily attributable to higher investment balances resulting from receipt of a $62 million long-term power sales agreement payment, combined with cash generated by the District's positive operating results after paying for debt reduction and capital expenditures out of cash reserves.

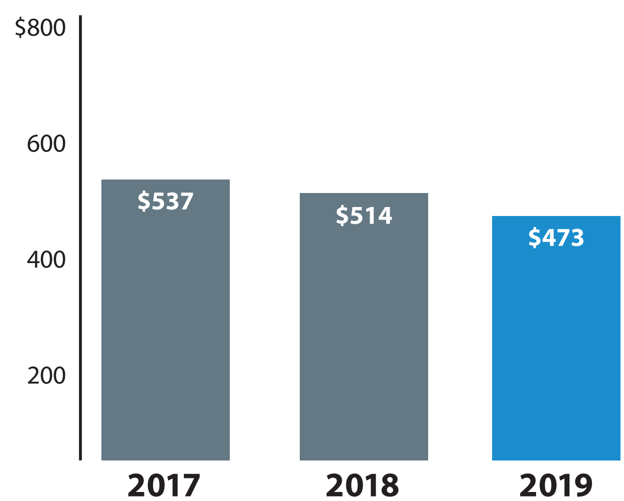
Deferred outflows of resources remained the same and decreased $2 million in 2019 and 2018, respectively. The decrease in 2018 was due to changes in the actuarial valuation of the Public Employees' Retirement System (PERS) collective net pension liability for PERS plans 1, 2 and 3 in which the District participates combined with the monthly amortization of losses on refunding debt.

LIABILITIES

Current liabilities decreased $7 million in 2019 primarily due to a decrease in accounts payable. Accounts payable decreased as a result of lower average wholesale power prices during December 2019 compared to the same period in 2018, combined with lower year-end accruals due to the timing of payments related to some large construction contracts.

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

Total Debt Outstanding
(amounts in millions)



During 2019 and 2018, scheduled maturities of debt were partially offset by accretion of interest on capital appreciation bonds resulting in a decrease in total debt outstanding of $40 million and $24 million, respectively. These reductions in total debt contributed to the $43 million and $26 million reduction in long-term debt in 2019 and 2018, respectively, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2019 or 2018.

Other liabilities decreased by $22 million in 2019, primarily due to the normal amortization of unearned wholesale power sales revenue combined with a decrease in net pension liability. Unearned wholesale power sales revenue was received previously from power purchasers and is being recognized as revenue over the life of the agreements. Net pension liability fluctuates due to changes in the actuarial valuation of the PERS collective net pension liability for PERS plans administered by the Washington State Department of Retirement Systems in which the District participates.

Other liabilities increased by $32 million in 2018, primarily due to receipt of the $62 million long-term power sales agreement payment that was deferred as unearned revenue and will be recognized in wholesale sales over the remaining term of the agreement. This increase was partially offset by the normal amortization of unearned revenue related the District's long-term power sales agreements and a decrease in net pension liability.

Deferred inflows of resources increased $11 million and $4 million in 2019 and 2018, respectively. The increase in 2019 was primarily due to a combination of increases in the fair value of investments and increases in the District's proportionate share of collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems. The increase in 2018 was primarily due to the District recording its proportionate share of the increase in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems.

NET POSITION

Net investment in capital assets increased $78 million and $65 million in 2019 and 2018, respectively. The increases in 2019 and 2018 both reflect additions to plant combined with reductions in debt primarily as a result of regularly scheduled repayments of bond principal on existing debt, combined with the acceleration of a 2020 principal payment to December 2019.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased $68 million and decreased $28 million in 2019 and 2018, respectively. The increase in 2019 was primarily due to an $87 million internal loan from Financing Facilities to Rock Island Hydroelectric System to fund capital spending including ongoing modernization work. These funds were previously unrestricted, but are now restricted by the District's long-term power sales contracts. The increase was partially offset by the use of restricted cash and investments to fund capital construction at the District's hydroelectric projects. The decrease in 2018 was primarily due to the use of cash restricted for construction of capital assets.

Unrestricted net position is not restricted for the purpose of debt covenants or other legal requirements and can be used to finance the day-to-day operations of the District. In 2019, unrestricted net position decreased $32 million due to the transfer of $87 million of cash reserves to a restricted fund to finance capital spending at Rock Island Hydroelectric System. The decrease was partially offset by cash generated from positive operating results. In 2018, unrestricted net position increased $68 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.

REVENUES AND EXPENSES

Retail sales increased $16 million compared to 2018 due to a combination of colder winter temperatures resulting in higher retail usage and a new off-system retail load.

In 2019, wholesale sales decreased $33 million compared to 2018 due to a combination of an increase in wholesale energy transactions being booked-out for scheduling purposes and recorded at net, and a new off-system retail load that reduced surplus energy available for sale in the wholesale market, with a corresponding increase in retail sales.

Purchased power costs decreased $4 million in 2019 compared to 2018 primarily due to an increase in wholesale energy transactions being booked-out for scheduling purposes and recorded at net.

Other income and expenses, which included net interest expense and income, decreased by $6 million in 2019, primarily as a result of higher investment income due to increased cash and investment balances resulting from the District's positive operating results combined with lower interest on long-term debt due to declining debt balance.

In 2019, net income before capital contributions increased $9 million compared to 2018 due primarily to additional proceeds from a long-term power sales agreement and insurance proceeds from a settlement for large unit repair work at Rocky Reach. Higher investment income also contributed to the increase. Capital contributions remained relatively flat from 2018 to 2019.

2018 retail sales were down $2.7 million compared to 2017 due to reduced usage resulting from milder weather conditions.

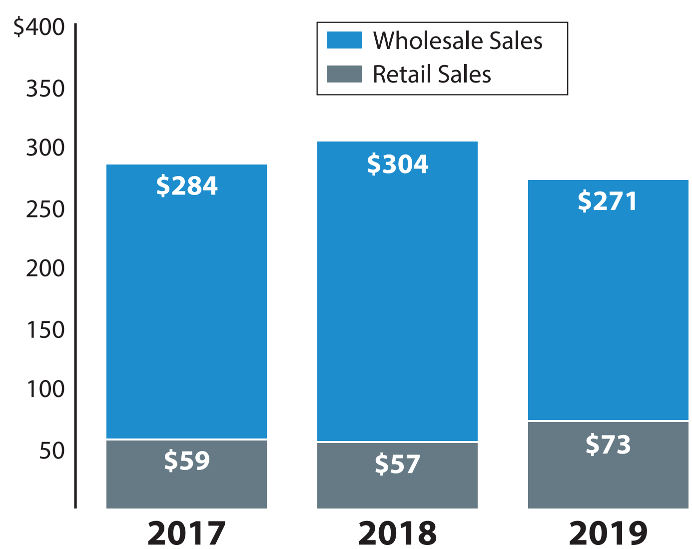
In 2018, wholesale sales increased $20 million compared to 2017 primarily due to an increase in volume of energy sold combined with higher average wholesale prices on the District's sale of surplus energy. In addition, energy book-outs decreased due to a lower volume of energy booked out for scheduling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

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

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

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

Wholesale/Retail Revenues
(amounts in millions)



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

STATEMENTS OF NET POSITION

December 31, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 31,464	$ 23,306
Investments	94,639	86,154
Accounts receivable, net	29,745	37,484
Accrued interest receivable	1,336	1,680
Materials and supplies	13,402	13,212
Prepayments and other	2,022	1,154
Current portion of regulatory assets	2,978	2,978
	175,586	165,968
RESTRICTED ASSETS – CURRENT		
Cash and cash equivalents	3,521	2,309
Investments	10,582	8,527
	14,103	10,836
TOTAL CURRENT ASSETS	189,689	176,804
UTILITY PLANT		
In service, at original cost	2,105,605	2,069,130
Construction work in progress	126,622	100,838
Less accumulated depreciation	(1,048,308)	(1,023,960)
	1,183,919	1,146,008
RESTRICTED ASSETS — NONCURRENT		
Cash and cash equivalents	28,651	2,863
Investments	160,078	120,320
	188,729	123,183
OTHER ASSETS		
Long-term receivables, net	326	406
Long-term investments	286,362	347,803
Regulatory assets, net	37,881	40,712
Derivative instrument asset	6,594	5,294
Other	875	755
	332,038	394,970
TOTAL ASSETS	1,894,375	1,840,965
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	4,185	5,109
Pensions	7,934	6,554
Other post-employment benefits	170	101
	12,289	11,764
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,906,664	$ 1,852,729

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2019	2018
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 38,502	$ 36,937
Current portion of unearned wholesale power sales	15,028	14,942
Accounts payable	46,829	55,343
Accrued taxes	4,172	4,034
Accrued interest	5,577	6,185
Accrued vacation and other	16,319	15,347
	126,427	132,788
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	437,840	480,799
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	123,922	137,899
Net pension liability	27,855	36,180
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	9,172	8,940
Other liabilities	785	594
	180,234	202,113
TOTAL LIABILITIES	744,501	815,700
DEFERRED INFLOWS OF RESOURCES		
Derivatives	6,594	5,294
Pensions	15,638	13,611
Regulatory liabilities	27,269	19,578
Other postemployment benefits	250	71
	49,751	38,554
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Net Investment in capital assets	702,942	625,343
Restricted	185,881	117,531
Unrestricted	223,589	255,601
	1,112,412	998,475
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,906,664	$ 1,852,729

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITIONS

For the years ended December 31, 2019 and 2018

(amounts in thousands)	2019	2018
OPERATING REVENUES		
Retail sales	$ 72,541	$ 57,000
Wholesale sales	270,550	303,823
Other operating revenues	42,095	25,698
	385,186	386,521
OPERATING EXPENSES		
Purchased power and water	49,453	53,201
Generation	92,181	98,924
Utility services	53,653	49,678
Taxes	9,742	8,541
Depreciation and amortization	43,575	44,186
Other operation and maintenance	16,506	14,823
	265,110	269,353
OPERATING INCOME	120,076	117,168
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(23,942)	(25,202)
Amortization of deferred debt costs	(673)	(700)
Investment income	15,148	11,435
Federal subsidy income	592	590
Other	(3,082)	(3,957)
	(11,957)	(17,834)
INCOME BEFORE CAPITAL CONTRIBUTIONS	108,119	99,334
CAPITAL CONTRIBUTIONS	5,818	5,934
CHANGE IN NET POSITION	113,937	105,268
TOTAL NET POSITION		
Beginning of year	998,475	893,207
TOTAL NET POSITION		
End of period	$ 1,112,412	$ 998,475

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018

(amounts in thousands)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 363,786	$ 425,742
Payments to suppliers	(134,591)	(121,525)
Payments to employees	(101,394)	(95,735)
Insurance proceeds	17,971	-
Net cash provided by operating activities	145,772	208,482
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(85,551)	(91,032)
Proceeds from sale of plant	1,646	260
Proceeds of new debt	601	-
Principal paid on debt	(52,188)	(35,462)
Interest paid on debt	(13,373)	(13,662)
Capital contributions	7,330	4,511
Other	(5,400)	(4,184)
Net cash used in capital and related financing activities	(146,935)	(139,569)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(153,292)	(279,864)
Proceeds from sales and maturities of investments	173,683	197,862
Interest on investments	15,773	11,780
Long-term receivables	80	100
Other, net	77	366
Net cash provided by (used in) investing activities	36,321	(69,756)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	35,158	(843)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	28,478	29,321
CASH & CASH EQUIVALENTS, END OF YEAR	$ 63,636	$ 28,478
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 120,076	$ 117,168
Depreciation and amortization	43,575	44,186
(Increase) decrease in operating assets:		
Accounts receivable, net	7,739	(9,748)
Materials and supplies	(190)	(381)
Prepayments	(868)	334
Net OPEB asset	(111)	148
Other	3,250	2,643
Deferred outflows of resources	(1,449)	778
Increase (decrease) in operating liabilities:		
Current portion unearned wholesale power sales	86	6,040
Accounts payable	(7,394)	11,072
Accrued taxes	138	(105)
Accrued vacation and other	972	348
Unearned wholesale revenue	(14,783)	45,007
Customer deposits	17	(1,802)
Net pension liability	(8,325)	(13,508)
Deferred inflows of resources	3,039	6,302
Net cash provided by operating activities	$ 145,772	$ 208,482
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ (1,137)	$ (507)
Capital contributions	93	853

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

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY AND OPERATIONS OF THE DISTRICT

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

ACCOUNTING POLICIES

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

In November 2016, GASB issued Statement No. 83, "Certain Asset Retirement Obligations." An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement 83 establishes guidance for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. Statement 83 was effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial statements.

In January 2017, GASB issued Statement No. 84, "Fiduciary Activities." This statement establishes criteria for identifying fiduciary activities of all state and local governments, including separate criteria for postemployment benefit arrangements that are fiduciary activities. Statement No. 84 is effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial statements.

In March 2018, GASB issued Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This statement clarifies which liabilities governments should include when disclosing information related to debt and requires additional essential information related to debt be disclosed in notes to the financial statements. Statement No. 88 was effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial statements.

In August 2018, GASB issued Statement No. 90, "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61." This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization be reported as an investment if a government's holding meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit. This statement was effective for fiscal year 2019. Implementation of this statement did not have a material impact to the District's financial 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 $2.9 million and $2.4 million in 2019 and 2018, respectively. The amounts are included in accounts receivable.

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

In January 2006, the District entered into a 20-year power sales contract with Puget Sound Energy (PSE) for 25% of the output of the Rocky Reach and Rock Island projects, effective in 2011 and 2012, respectively. PSE is generally responsible to pay 25% of all costs associated with the projects, including capital, operation and maintenance and debt service costs, in addition to charges for capital recovery, debt reduction and various fees. Under the terms of the contract, the District received an advance payment of $89.0 million during 2006, which was deferred and is being recognized as revenue over the term of the contract.

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

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

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

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

Additional contract provisions apply for the initially deferred capacity charges due to the shutdown event. The first charge, the "Initial Shutdown Amount," of $8.6 million, became due and was paid in December 2016, upon the plant being idle for one year. The "Initial Shutdown Amount" was deferred and will be recognized in revenue over the remaining term of the agreement. A second charge, the "Shutdown Settlement Amount," which is the $67.1 million deferred balance of the capacity reservation charge was scheduled to become due in the event the Wenatchee Works facility remained shutdown for longer than 18 months measured from the December 2015 curtailment.

In May 2017, the District entered into an amendment to the power sales agreement that allowed a one-year deferral of a large portion of the "Shutdown Settlement Amount" to June 2018. In exchange for the deferral, Alcoa paid the District one year of the deferred capacity charge amounting to $4.5 million and an additional $2.8 million to compensate the District for the value of the one-year deferral of the remaining balance of $62.4 million, as well as extending contract collateral requirements. The $4.5 million contract charge was deferred and will be recognized in revenue over the remaining term of the agreement. The $2.8 million deferral charge was included as a component of other operating revenues on the Statement of Revenues, Expenses and Changes in Net Position.

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

The District's share of power produced by the Rocky Reach and Rock Island Systems is sold to the retail electric distribution system on a cost-plus basis. Power produced by the Lake Chelan System is sold to the retail electric distribution system at cost. As of December 31, 2019, the Rocky Reach, Lake Chelan and Rock Island Systems sell 49%, 100% and 49%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers, firm power purchasers or sold on the wholesale market if in excess of the District's local load.

Revenues and purchased power expenses related to "booked-out" wholesale energy sales and purchases (agreement with counterparty to net settle before scheduling for delivery) are reported net in the Statement of Revenues, Expenses and Changes in Net Position as a component of Wholesale Sales. For the years ended December 31, 2019 and December 31, 2018, booked-out energy transactions amounted to $56.6 million and $44.0 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, 2019, the District had three significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $177.5 million. The District had three significant customers for the year ended December 31, 2018, collectively comprising total revenue of $199.8 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 33% of the interest paid. In both 2019 and 2018, the District recognized non-operating revenues of $0.6 million.

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

REGULATORY DEFERRALS

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

POWER MARKETING

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

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

In addition to the forward trading horizon of 60 months beyond the current year, the District's Board of Commissioners approved a resolution on February 8, 2014, authorizing the General Manager or designee to enter into one or more transactions for the forward sale of energy and capacity and associated environmental attributes, not to exceed 10% of the output of Rocky Reach and Rock Island for a term up to fifteen years in duration, with the delivery to begin within six years of execution. In 2017, the District entered into an agreement under this resolution for a 10-year slice sale of 5% of Rocky Reach and Rock Island output for the years 2021-2030 that further hedges against downside risk and helps reduce wholesale revenue volatility.

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 using an industry standard credit-scoring model. Active counterparties are reviewed on a regular basis to evaluate whether the assigned limits need to be adjusted. In addition, daily monitoring of financial and market information is performed to identify any developing counterparty credit risk. Transactions are limited accordingly when deemed necessary, and any exceptions to the assigned limits are reported to the Power Risk Management Committee.

The District requires that a one-way collateral annex be executed in conjunction with its slice output contracts, including the 10-year contract, or when deemed necessary to facilitate trading. The District is not required to post any collateral under these one-way margin agreements. Currently, the District requires that all posting requirements be met with a Letter of Credit unless the counterparty holds a senior unsecured credit rating of A+ from at least one of the nationally recognized rating agencies. For the higher rated counterparties, the District accepts Performance Assurance in the form of cash.

All of the District's forward power contracts are derivative instruments. All forward power contracts in place during 2018 and 2019 are classified as normal purchases and sales under GASB Statement No. 53, and thus, 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 $170,000 and $181,000 at December 31, 2019 and 2018, respectively.

CAPITAL CONTRIBUTIONS

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

MATERIALS AND SUPPLIES INVENTORY

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

COMPENSATED ABSENCES

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

UTILITY PLANT

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

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

PENSIONS

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

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Chelan County Public Utility District Retirees' Benefit

Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The District identified AROs for certain assets that are expected to operate in perpetuity. As the District cannot estimate a settlement date or extent of the obligation, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities are not recorded for retirement activities associated with certain transmission, distribution and wastewater facilities and hydro-electric projects. The District does not have any recorded AROs as of December 31, 2019 or 2018.

SUBSEQUENT EVENTS

The first COVID-19 case caused by the novel coronavirus in the United States was confirmed on January 21, 2020, and the first virus-related death occurred on February 29, 2020, both in Washington State. Governor Jay Inslee has subsequently restricted public gatherings, limited operation of restaurants and bars, and canceled public schools through the remainder of the current school year. In addition, President Trump declared a national emergency on March 13, 2020, as a result of the outbreak. The situation continues to change as new facts become available and new circumstances arise.

In response to this crisis, the District has proactively implemented measures to mitigate operational and financial impacts to the District and its customers, including closing lobbies, requiring employees not required to be on site for essential services to work from home, implementing "social distancing" measures for the District's on-site essential staff and curtailing projects and maintenance to essential projects that can be completed with minimal contact between employees. The District also has declared that it will not disconnect utility service from customers for failure to pay or charge late fees during the outbreak of COVID-19. The District also may delay future rate increases. This may impact financial results for the District in 2020, but did not impact financial results for 2019.

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)	2019	2018
Unrestricted assets		
Unrestricted	$ 95,937	$ 90,296
Board designated	316,528	366,967
Total unrestricted assets	412,465	457,263
Restricted assets	202,832	134,019
	$ 615,297	$ 591,282

As of December 31, 2019 and 2018, the District had the following cash and investments:

Investment Type (amounts in thousands)	Total 2019	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 24,062	$ 10,188	$ 1,524	$ -	$ 12,350
U.S. Treasury Strips	16,670	-	-	16,670	-
U.S. Agency Notes	201,402	48,978	55,763	19,902	76,759
U.S. Agency Bills	24,306	19,135	1,886	-	3,285
Municipal Bonds	84,679	8,978	12,290	27,718	35,693
State Investment Pool	21	21	-	-	-
Certificates of Deposit	219,678	65,168	46,581	20,648	87,281
Cash Deposits	44,479	44,479	-	-	-
	$ 615,297	$ 196,947	$ 118,044	$ 84,938	$ 215,368

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

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, 2019 and 2018:

Investments (amounts in thousands)	Total 2019	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Net Asset Value (NAV)	Not Leveled
U.S. Treasuries	$ 24,062	$ 24,062	$ -	$ -	$ -	$ -
U.S. Treasury Strips	16,670	16,670	-	-	-	-
U.S. Agency Notes	201,402	-	201,402	-	-	-
U.S. Agency Bills	24,306	-	5,171	-	-	19,135
Municipal Bonds	84,679	-	84,679	-	-	-
State Investment Pool	21	-	-	-	-	21
Certificates of Deposit	219,678	-	-	-	-	219,678
Cash Deposits	44,479	-	-	-	-	44,479
Total Investments	$ 615,297	$ 40,732	$ 291,252	$ -	$ -	$ 283,313

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

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, 2019 and 2018, investments in debt securities had credit quality ratings as follows:

INVESTMENT RATING (S&P EQUIVALENT)

(amounts in thousands)	2019	2018
Long Term		
AAA	$ 11,509	$ 24,908
AA+	224,682	259,496
AA	53,149	62,638
AA-	7,381	13,071
	$ 296,721	$ 360,113

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, 2019 and 2018, 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 2019	2018
Federal Farm Credit Bank	AA+	9%	9%
Federal Home Loan Bank	AA+	13%	12%
Federal Home Loan Mortgage Corporation	AA+	2%	5%
Federal National Mortgage Association	AA+	10%	11%

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, 2019, are provided below.

FORWARD PURCHASE AGREEMENT

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/19 Fair Value	12/31/18 Fair Value
Wells Fargo Bank, N.A.	Aa2/AA+/AA-	6.63%	$ 18,820,179	12/22/1999	6/1/2029	$ 6,594,000	$ 5,294,000

As of December 31, 2019 and 2018, the agreement is considered a hedging derivative instrument, and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to interest rates which are lower than when the forward purchase agreement was entered into, the agreement had a positive fair value to the District as of December 31, 2019 and 2018. 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, 2019 and 2018 is as follows:

(amounts in thousands)	January 1, 2019	Additions	Reductions and Transfers	December 31, 2019	Depreciation Expense
Hydroelectric generation	$ 1,283,080	$ 9,579	$ (4,139)	$ 1,288,520	$ 20,911
Transmission	159,025	1,297	(280)	160,042	3,142
Distribution	260,488	10,331	(2,807)	268,012	7,098
General plant	149,148	25,639	(11,256)	163,531	5,793
Intangible	39,670	255	-	39,925	1,526
Telecommunications	93,876	4,189	(2,266)	95,799	3,347
Water/ Wastewater	83,843	6,130	(197)	89,776	1,758
	2,069,130	57,420	(20,945)	2,105,605	$ 43,575
Construction work in progress	100,838	82,856	(57,072)	126,622	
Accumulated depreciation	(1,023,960)	(43,573)	19,225	(1,048,308)	
	$ 1,146,008	$ 96,703	$ (58,792)	$ 1,183,919	

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

Plant assets include land of $83.6 million and $74.1 million as of December 31, 2019 and 2018, respectively.

In 2013, the four large generating units at Rocky Reach Dam were taken out of service after discovering that one of the turbines had a deep crack in a stainless steel servo-rod, which is part of the mechanism used to adjust turbine blades. District officials were concerned about the integrity of all four units, which have the same design elements. Out of concern for the health and safety of District employees, the public and the environment, it was decided to keep all four units out of service for further investigation. Temporary repairs were made to all four units by limiting the blades to a fixed operating mode, with the last of the four large units being returned to service in April 2014. The first two units have been repaired and returned to Kaplan operation with variable blade capability in December 2017 and January 2020, respectively. The remaining two units are in service with fixed blade operation with repairs scheduled to begin in December 2021. Both units are expected to be returned to service by spring 2023. The seven additional generating units at Rocky Reach do not have a similar design and were not impacted by this repair.

The District maintains mechanical breakdown and business interruption insurance policies. Each generating unit has a separate $500,000 deductible for mechanical breakdown claims. Lost revenues related to business interruption are covered from the date of outage for the first Rocky Reach unit and after 60 days out of service for the three subsequent units. The District's insurance company made partial payments for both mechanical breakdown and business interruption claims in previous years.

During 2019, the District received $16.3 million and $1.7 million as final settlement of the claims under the mechanical breakdown and business interruption policies, respectively. Mechanical breakdown proceeds received in the amount of $3.8 million were recorded to operating expense under "Other operating and maintenance" to offset the covered repairs expense incurred during 2019. The remaining mechanical breakdown proceeds, which are related to repairs incurred in prior years or repairs still to be incurred, along with $1.7 million business interruption insurance proceeds were recorded under "Other operating revenues." The insurance claims have been fully settled and no additional proceeds will be received.

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. The Rock Island Project license expires December 31, 2028, and the District will begin the relicensing process in 2023. The costs associated with relicensing the projects have been included in the District's Utility Plant balance as Intangible Assets and are being amortized over the lives of the associated licenses.

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

The license for the Lake Chelan Project is based on a settlement agreement submitted to FERC in October 2003, between the District and stakeholders, including local communities, state and federal agencies, Tribes and environmental groups. The license requires implementation of detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources over the life of the license. In addition, the Lake Chelan Project settlement agreement and license contains some measures that will be carried out by various agencies using funds provided by the District. The present value of these accrued funding obligations was estimated to be $9.5 million and $9.4 million as of December 31, 2019 and 2018, respectively. The estimate for these funding obligations may increase by measures that are deferred to later years due to inflationary adjustments and may be reduced by measures that are completed.

A summary of accrued funding obligations, accounted for as intangible assets, for the years ended December 31, 2019 and 2018 are as follows:

(amounts in thousands)	2019	2018
Licensing obligation - beginning of year	$ 9,361	$ 9,392
Additions	256	-
Reductions	(114)	(31)
Licensing obligation - end of year	$ 9,503	$ 9,361

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

NOTE 5: REGULATORY DEFERRALS

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

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

The following regulatory balances are as of December 31, 2019 and 2018.

(amounts in thousands)		2019		2018
Regulatory Assets:				
Swap termination payments	$	14,632	$	17,201
Conservation expenses		17,799		16,545
Debt issuance costs		4,359		5,032
Investments in assets owned by others		2,597		-
Fair Value of Investments		1,472		4,912
	$	40,859	$	43,690
Regulatory Liabilities:				
Contributed Capital	$	21,026	$	19,420
Fair Value of Investments		6,243		158
	$	27,269	$	19,578

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

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

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

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

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

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

NOTE 6: LONG-TERM DEBT

(amounts in thousands)	January 1, 2019	Additions	Reductions	December 31, 2019	Due Within One Year
REVENUE BONDS					
Rocky Reach Revenue Bonds, 5%, due July 1, 2020, to July 1, 2034 (net unamortized premiums of $188)	$ 12,440	$ -	$ (542)	$ 11,898	$ 540
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2020, to July 1, 2029 (net unamortized premiums of $17)	202,188	11,176	(23,154)	190,210	23,170
Consolidated System Revenue Bonds, 3.603% to 6.897%, due July 1, 2020, to July 1, 2039 (net unamortized premiums of $2,668)	296,260	-	(28,648)	267,612	13,735
	510,888	11,176	(52,344)	469,720	37,445
NOTES FROM DIRECT BORROWINGS					
Notes, 0.25% to 1%, due June 1, 2020, to September 30, 2039	6,427	601	(737)	6,291	726
Total Long Term Debt	$ 517,315	$ 11,777	$ (53,081)	$ 476,011	$ 38,171

(amounts in thousands)	January 1, 2018	Additions	Reductions	December 31, 2018	Due Within One Year
REVENUE BONDS					
Rocky Reach Revenue Bonds, 5%, due July 1, 2020, to July 1, 2034 (net unamortized premiums of $188)	$ 12,959	$ -	$ (519)	$ 12,440	$ 515
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2020, to July 1, 2029 (net unamortized premiums of $17)	213,057	11,820	(22,689)	202,188	23,150
Consolidated System Revenue Bonds, 3.603% to 6.897%, due July 1, 2020, to July 1, 2039 (net unamortized premiums of $2,668)	308,820	-	(12,560)	296,260	12,114
	534,836	11,820	(35,768)	510,888	35,779
NOTES FROM DIRECT BORROWINGS					
Notes, 0.25% to 2%, due June 1, 2020, to September 30, 2039	7,164	-	(737)	6,427	737
Total Long Term Debt	$ 542,000	$ 11,820	$ (36,505)	$ 517,315	$ 36,516

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

PRINCIPAL AND INTEREST

(amounts in thousands)	Revenue Bonds Principal	Revenue Bonds Interest	Direct Borrowings Principal	Direct Borrowings Interest
2020	$ 37,445	$ 12,307	$ 726	$ 31
2021	50,410	11,256	723	28
2022	51,630	10,087	723	24
2023	52,945	8,823	724	21
2024	54,380	7,441	724	17
2025-2029	218,095	17,664	2,089	39
2030-2034	57,255	6,807	415	12
2035-2039	9,145	1,303	167	4
Total	$ 531,305	$ 75,688	$ 6,291	$ 176

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $531 million also include $64 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, 2019, were issued as variable rate bonds and have a reset of interest rates every seven days. The original standby bond purchase agreement (Credit Facility) associated with the bonds expired on March 7, 2013. A replacement standby bond purchase agreement was entered into with Union Bank, N.A. (Union Bank) and dated as of March 1, 2013 (Replacement Credit Facility). The Replacement Credit Facility was extended on April 17, 2015, and was terminated on June 22, 2018. The currently active standby bond purchase agreement was entered into with Barclays Bank PLC (Barclays) as of June 1, 2018 (Active Credit Facility), and will be in effect through July 1, 2022. The District pays Barclays a commitment fee of 35 basis points as prescribed in the Active Credit Facility. If any 2008B bonds are purchased and held by Barclays, the bonds will bear interest at a fluctuating annual rate as specified by the Active Credit Facility, which would be at least 700 basis points. In addition, any 2008B bonds purchased and held under the Active Credit Facility are subject to special mandatory redemption over a five-year period in twenty equal quarterly principal installments. As of December 31, 2019, Barclays does not hold any un-remarketed 2008B bonds.

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

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

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

As of December 31, 2019 and 2018, the District was in compliance with all debt covenants.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the electric distribution system power is purchased from the District's hydro projects on a cost-plus basis. These intra-district purchases are eliminated in the Statements of Revenues, Expenses and Changes in Net Position. Power purchases from external sources amounted to $49.1 million and $52.9 million for 2019 and 2018, respectively, and is included as purchased power in the Statements of Revenues, Expenses and Changes in Net Position. This purchased power is used to meet local load requirements, meet certain contractual obligations and support the District's hedging strategy.

NOTE 8: EMPLOYEE BENEFIT PLANS

PENSION PLANS

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

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

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

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

PERS PLAN 1

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

Contributions. The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS PLAN 1

Actual Contribution Rates:	Employer	Employee
January through June 2019	12.83%	6.00%
July through December 2019	12.86%	6.00%

For the years ended December 31, 2019 and 2018, the District's actual contributions to the plan were $30,500 and $43,600, 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 Unfunded Actuarial Accrued Liability (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 2019 were as follows:

PERS PLAN 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2
January through June 2019	12.83%	7.41%
July through December 2019	12.86%	7.90%
Employee PERS Plan 3		varies

For the years ended December 31, 2019 and 2018, the District's actual contributions to the plans were $10.1 million and $9.5 million, respectively.

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

At December 31, 2019 and 2018, the District reported a total pension liability of $27.9 million and $36.2 million, respectively, for its proportionate share of the net pension liabilities as follows:

	Liability	
(amounts in thousands)	2019	2018
PERS 1	$ 21,045	$ 24,403
PERS 2/3	$ 6,810	$ 11,777

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

	Proportionate Share 12/31/19	Proportionate Share 12/31/18	Change in Proportion
PERS 1	.547288%	.546415%	.000873%
PERS 2/3	.701021%	.689768%	.011253%

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, 2019, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

PENSION EXPENSE

For the years ended December 31, 2019 and 2018, the District recognized pension expense as follows:

	Pension Expense	
(amounts in thousands)	**2019**	**2018**
PERS 1	$ 1,010	$ 2,296
PERS 2/3	1,658	95
TOTAL	$ 2,668	$ 2,391

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS PLAN 1

(amounts in thousands)	Deferred Outflows of Resources 2019	Deferred Inflows of Resources 2019	Deferred Outflows of Resources 2018	Deferred Inflows of Resources 2018
Differences between expected and actual experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,406	-	970
Changes of assumptions	-	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-
Contributions subsequent to the measurement date	2,081	-	1,945	-
TOTAL	$ 2,081	$ 1,406	$ 1,945	$ 970

PERS PLAN 2/3

(amounts in thousands)	Deferred Outflows of Resources 2019	Deferred Inflows of Resources 2019	Deferred Outflows of Resources 2018	Deferred Inflows of Resources 2018
Differences between expected and actual experience	$ 1,951	$ 1,464	$ 1,444	$ 2,062
Net difference between projected and actual investment earnings on pension plan investments	-	9,911	-	7,227
Changes of assumptions	174	2,857	138	3,352
Changes in proportion and differences between contributions and proportionate share of contributions	340	-	181	-
Contributions subsequent to the measurement date	3,388	-	2,846	-
TOTAL	$ 5,853	$ 14,232	$ 4,609	$ 12,641

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

(amounts in thousands) Year ended December 31	PERS Plan 1	PERS Plan 2/3
2020	$ 1,771	$ 428
2021	(735)	(5,037)
2022	(262)	(2,207)
2023	(98)	(1,158)
2024	-	(511)
Thereafter	-	106
Total	$ 676	$ (8,379)

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, 2020.

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 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

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

Long-Term Expected Rate of Return. OSA selected a 7.4% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.2%
Tangible Assets	7%	5.1%
Real Estate	18%	5.8%
Global Equity	32%	6.3%
Private Equity	23%	9.3%
	100%	

SENSITIVITY OF NET PENSION LIABILITY

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

(amounts in thousands)	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 26,355	$ 21,045	$ 16,438
PERS 2/3	$ 52,225	$ 6,809	$ (30,457)

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 $9,500 or up to a maximum of $12,500 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2019 and 2018 were $2.4 million and $2.3 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

PLAN DESCRIPTION

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

BENEFITS PROVIDED

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

EMPLOYEES COVERED BY BENEFIT TERMS

At December 31, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	-
Active Employees	773
Total	786

CONTRIBUTIONS

The District's subsidy of the cost of 2019 and 2018 premiums for eligible retired plan members and their spouses amounted to $65,000 and $54,000, respectively. Plan members receiving benefits contributed 80% and 79% of the premium costs for the years 2019 and 2018, respectively. Future subsidies will be provided by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

NET OPEB ASSET

As of December 31, 2019 and 2018, the retiree medical plan was fully funded. The District's net OPEB asset was measured as of October 31, 2019, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of that date. Actuarial update procedures were used to roll forward the service cost and the total OPEB liability to the December 31, 2019 measurement date.

ACTUARIAL ASSUMPTIONS

The total OPEB liability in the October 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate	3.0%
Salary increases	3.75%
Discount rate	4.15%
Healthcare cost trend rates	A healthcare trend is not used in the valuation as retiree premiums are assumed to be age-adjusted and changes in the District's subsidy are solely dependent on inflation.

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

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

Fund Type	% of Total Portfolio	Expected Long-Term Real Rate of Return
Domestic Equity	30%	3.8%
Foreign Equity	20%	6.1%
Fixed Income	42%	(0.4%)
Real Estate	5%	3.8%
3 Month Treasury Bills	3%	(1.0%)
	100%	

DISCOUNT RATE

The discount rate used to measure the total OPEB liability was 4.15%. Based on expected 5% long-term rate of return on the OPEB plan's assets, the fiduciary net position was only projected to be available to make projected OPEB payments for plan participants through 2045. Therefore, the expected long-term rate of return on the plans assets has been blended with the December 31, 2019 rate of 2.74% in the 20-year General Obligation Municipal Bond Index published by Bond Buyer.

CHANGES IN THE NET OPEB (ASSET)

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a)+(b)
Balances at 1/1/2019	$ 862,908	$ (1,265,976)	$ (403,068)
Changes for the year:			
Service cost	37,038	-	37,038
Interest	36,108	-	36,108
Differences between expected and actual income	-	(167,415)	(167,415)
Change in assumptions	(75,047)	-	(75,047)
Experience Loss	104,075	-	104,075
Contributions — retirees	264,492	(264,492)	-
Net investment income	-	(63,209)	(63,209)
Benefit payments	(250,174)	250,174	-
Administrative expense	-	17,909	17,909
Net changes	116,492	(227,033)	110,541
Balances at 12/31/2019	$ 979,400	$ (1,493,009)	$ (513,609)

SENSITIVITY OF THE NET OPEB ASSET TO CHANGES IN THE DISCOUNT RATE

The following presents the net OPEB asset of the District, as well as what the District's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (3.15%) or 1-percentage-point higher (5.15%) than the current discount rate:

	1% Decrease (3.15%)	Current Discount Rate (4.15%)	1% Increase (5.15%)
Net OPEB (asset)	$ (444,234)	$ (513,609)	$ (578,915)

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

For the years ended December 31, 2019 and 2018, the District recognized OPEB expense of $(1,560) and $23,308, respectively. At December 31, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2019	2018	2019	2018
Differences between expected and actual experience	$ 94,526	$ -	$ -	$ -
Changes of assumptions	-	-	68,161	-
Net difference between actual and projected earnings	75,710	100,947	181,576	71,467
Total	$ 170,236	$ 100,947	$ 249,737	$ 71,467

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

Year ended December 31:	
2020	$ (29,406)
2021	(29,404)
2022	(5,584)
2023	(30,820)
2024	2,663
Thereafter	13,050

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, 2019 and 2018, for both projects is presented below. Included in operating revenues and expenses are intradistrict sales and rents which are eliminated in the Statement of Revenues, Expenses and Changes in Net Position.

CONDENSED STATEMENTS OF NET POSITION

(amounts in thousands)	Rocky Reach 2019	Rock Island 2019	Rocky Reach 2018	Rock Island 2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 9,954	$ 5,897	$ 8,792	$ 4,691
Restricted assets – current	2,926	8,392	2,246	6,405
Total current assets	12,880	14,289	11,038	11,096
Utility plant, net	286,456	414,015	293,129	396,661
Restricted assets – noncurrent	35,003	128,637	39,008	58,481
Other assets	7,118	17,661	8,368	17,538
Deferred outflows of resources	2,218	4,235	1,761	4,091
Total assets and deferred outflows of resources	$ 343,675	$ 578,837	$ 353,304	$ 487,867
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 17,164	$ 45,580	$ 17,096	$ 46,375
Long-term debt	105,811	337,508	123,204	276,421
Other liabilities	24,169	25,186	26,548	28,144
Total liabilities	147,144	408,274	166,848	350,940
Deferred inflows of resources	4,910	29,836	3,664	27,462
Net Position:				
Net investment in capital assets	274,465	225,110	280,328	196,401
Restricted	28,785	127,875	32,136	55,757
Unrestricted	(111,629)	(212,258)	(129,672)	(142,693)
Total net position	191,621	140,727	182,792	109,465
Total liabilities, deferred inflows of resources and net position	$ 343,675	$ 578,837	$ 353,304	$ 487,867

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2019	Rock Island 2019	Rocky Reach 2018	Rock Island 2018
Operating revenues	$ 83,894	$ 118,024	$ 96,512	$ 104,449
Less:				
Operating expenses	53,765	51,306	58,643	47,089
Depreciation and amortization	9,988	11,292	12,313	10,790
Operating income	20,141	55,426	25,556	46,570
Other expense	8,247	22,079	9,757	21,939
Income before capital contributions and interfund transfers	11,894	33,347	15,799	24,631
Capital contributions	-	628	-	623
Interfund transfers	(3,065)	(2,713)	(15,700)	16,300
Change in net position	8,829	31,262	99	41,554
Total net position — beginning of year	182,792	109,465	182,693	67,911
Total net position — end of year	$ 191,621	$ 140,727	$ 182,792	$ 109,465

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2019	Rock Island 2019	Rocky Reach 2018	Rock Island 2018
Net cash provided (used) by:				
Operating activities	$ 23,821	$ 61,506	$ 35,917	$ 57,618
Capital and related financing activities	(29,543)	5,478	(33,763)	(91,333)
Investing activities	6,697	(40,905)	(3,393)	32,264
Net increase /(decrease)	975	26,079	(1,239)	(1,451)
Beginning cash and cash equivalents	2,616	2,943	3,855	4,394
Ending cash and cash equivalents	$ 3,591	$ 29,022	$ 2,616	$ 2,943

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, 2019 and 2018 is summarized in the following table for each insurance program:

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2019	$ -	$ 577	$ 1,250	$ 33
Claims accrued	-	769	17,015	1,070
Claims paid	-	(735)	(16,697)	(1,062)
Claims Liability as of December 31, 2019	$ -	$ 611	$ 1,568	$ 41

(amounts in thousands)	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2018	$ -	$ 97	$ 911	$ 39
Claims accrued	-	1,449	14,467	1,161
Claims paid	-	(969)	(14,128)	(1,167)
Claims Liability as of December 31, 2018	$ -	$ 577	$ 1,250	$ 33
Commercial Insurance Deductible as of December 31, 2019	Up to $2,000,000 depending on line of coverage	$500,000 per incident	$250,000 per incident	N/A

NOTE 12: COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

In June 2004, the Federal Energy Regulatory Commission (FERC) ordered the incorporation of the Anadromous Fish Agreements and Habitat Conservation Plans (HCPs) into the licenses for the Rocky Reach and Rock Island projects. The Rocky Reach Project HCP was included in the new FERC license issued in February 2009. The HCPs provide a framework for long-term resolution of certain fish issues at the projects and do not expire until June 2054. The District, the U.S. Fish and Wildlife Service (USFWS), NOAA Fisheries, the Washington State Department of Fish and Wildlife, the Confederated Tribes of the Colville Reservation and the Yakama Nation are signatories to the HCPs. NOAA Fisheries completed biological opinions for the HCPs and issued Incidental Take Permits (ITPs) under Section 10 of the Endangered Species Act (ESA) in 2003. The incorporation of the HCPs and ITPs into the current FERC licenses provides greater certainty for continued operation of the District's hydroelectric systems while meeting requirements to prevent jeopardy to certain listed and unlisted species of salmon and steelhead. The Upper Columbia River spring Chinook are listed as endangered and Upper Columbia River steelhead are listed as threatened under the ESA. The HCPs satisfy the District's obligations for hydro project operations under the ESA for these species and in addition, protect other anadromous salmon including sockeye salmon, summer/fall Chinook and coho salmon. Collectively, these five species are known as the "Plan Species." In addition to the ESA, the HCPs are also intended to satisfy the projects' obligations for all Plan Species under the Federal Power Act, the Fish and Wildlife Coordination Act, the Essential Fish Habitat provisions of the Magnuson-Stevens Fishery Conservation and Management Act, the Pacific Northwest Electric Power Planning and Conservation Act and Title 77 RCW of the State of Washington.

The District's commitments under the HCPs include projects and programs to improve fish passage, to provide capacity for and fund hatchery operations and to contribute annual funding for the protection and restoration of tributary habitat, which when combined and successfully achieved culminates in obtaining the desired HCP outcome of No Net Impact (NNI). In February 2013, the District submitted its first 10-year comprehensive progress reports for Rock Island and Rocky Reach projects documenting the progress toward meeting NNI. The successful achievement of combined adult and juvenile project survival standards for spring migrants, necessary funding and capacity improvements for hatchery operations and annual contributions to the tributary habitat fund resulted in a determination by the HCP Coordinating Committee (designated decision body) that the District had met the obligations of the HCPs to warrant approval of NNI status. The District 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. Additionally, the Mid-Columbia Recovery Unit Implementation Plan (RUIP), in support of the Bull Trout Recovery Plan, was finalized in September 2015. The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS's biological opinion on potential effects of the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. The plan for Rocky Reach was later replaced with the Comprehensive Bull Trout Management Plan as required by the Comprehensive Settlement Agreement for the Rocky Reach Project Relicensing. The Bull Trout Management Plan was approved in the new license and provides for protection, mitigation and enhancement measures. Additionally, the USFWS filed its Biological Opinion for the Rocky Reach Project in December 2008 concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify critical habitat. The USFWS Biological Opinion provided terms and conditions of an incidental take permit and required five reasonable and prudent measures be implemented to minimize the incidental take of bull trout. In September 2010, the USFWS formally designated critical habitat for bull trout in the upper mid-Columbia river, including the project areas for Rock Island and Rocky Reach hydros. To date, no additional consultation has been required for the projects.

Revised Washington State Department of Ecology (WDOE) water quality standards (WQS) became effective in August 2017. These standards are applicable to the Columbia River basin and address total dissolved gas and temperature for the Columbia and Snake Rivers. As part of the relicensing process for the Rocky Reach and Lake Chelan projects, the District obtained Water Quality Certifications issued by the WDOE that are consistent with the revised WQS. The WDOE allows the District a ten-year window to demonstrate compliance with the new WQS and can require the District to conduct further studies, implement further operational changes or even, in a worst case event, provide structural changes to meet requirements. Compliance with the conditions set forth in these WQS places 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

The District's capital improvement programs include large projects at Rock Island Dam for replacement of generators, turbines and governor hydraulic systems and rotor refurbishment in the first powerhouse and refurbishment of bridge and gantry cranes at the second powerhouse. The District has committed by contract to fulfill these programs, which are projected to be substantially complete by 2022. The contractually committed amount on the future work to be performed on these major capital programs is approximately $64.7 million as of December 31, 2019.

The District also has contractual commitments relating to other significant capital improvement projects including fiber expansion, Customer Information System upgrade, digital turbine governors and unit controllers, digital mobile radio system and new or upgraded building facilities over the next few years totaling approximately $38.4 million as of December 31, 2019.

In addition, the District has contractual commitments relating to large projects at Rocky Reach Dam for turbine repairs and fabrication of new head covers. As of December 31, 2019, the remaining contractual commitments for this work totals approximately $11.3 million.

POWER MARKETING

As of December 31, 2019, the District had entered into forward block contracts obligating it to deliver approximately 5,767,000 MWh of energy at various times during each of the years in the period 2020-2024. The District expects to receive approximately $195.2 million from the purchasers of this power. In addition, as part of its comprehensive forward energy hedging strategy, the District has entered into several slice output contracts, which provide a counterparty a percentage share of hydropower production for a fixed payment. Under the slice output contracts, the District has committed to delivering varying percentages of the hydropower production of its Rocky Reach and Rock Island projects during each of the years in the period 2020-2030, in exchange for approximately $400.1 million.

The District has committed to purchase approximately 3,341,000 MWh of energy at a cost of approximately $105.1 million to fulfill these power marketing obligations, meet District load requirements and mitigate credit risk. The District believes it has sufficient internal resources or has acquired sufficient external resources to complete these transactions.

ENERGY NORTHWEST

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

The Project was constructed in phases. The District is a participant in phases I and II of the Project, which have a combined generating capacity of 64 MW. In exchange for paying certain project costs after phase I and II commenced commercial operation, including debt service on the Wind Project Revenue Bonds issued by Energy Northwest to finance the construction of the Project, the District received a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2019, the District's share of bond principal was $3.0 million and was not to exceed $3.8 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

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

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

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

CLAIMS AND LITIGATION

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

NOTE 13: 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)	2019	2018
Operating revenues		
Wholesale fiber services	$ 6,311	$ 6,601
Fiber leasing	858	755
Intradistrict revenues	3,339	3,315
Total operating revenues	10,508	10,671
Operating expenses		
Administrative and general	1,519	1,175
Repairs and maintenance	1,706	1,429
Other operating	3,927	3,246
Depreciation expense	3,347	3,052
Total operating expense	10,499	8,902
Operating income	9	1,769
Other income	419	300
Net income before capital contributions	428	2,069
Capital contributions	113	169
Interfund transfers	1,892	2,500
Change in net position	$ 2,433	$ 4,738

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2019 and 2018:

(amounts in thousands)	2019	2018
ASSETS & DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 21,717	$ 19,554
Utility plant, net and other assets	51,265	51,313
Total assets	72,982	70,867
Deferred outflows of resources	353	283
Total assets and deferred outflows of resources	$ 73,335	$ 71,150
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 2,332	$ 2,822
Deferred inflows of resources	831	589
Net position	70,172	67,739
Total liabilities, deferred inflows of resources and net position	$ 73,335	$ 71,150

The District's capital investment in telecommunications plant and equipment, net of retirements, for 2019 and 2018 was $1.9 million and $4.3 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2019, was $98.7 million. The capital investment, as well as cumulative net losses, was funded by interfund transfers.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PERS PLAN 1

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

(dollars in thousands)	2019	2018	2017	2016	2015
Proportion of the net pension liability	.547288%	.546415%	.543040%	.542981%	.531455%
Proportionate share of the net pension liability	$ 21,045	$ 24,403	$ 25,768	$ 29,161	$ 27,800
Covered-employee payroll	$ 237	$ 342	$ 448	$ 447	$ 630
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	8,879.75%	7,135.38%	5,751.79%	6,523.71%	4,412.70%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

PERS PLAN 2/3

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

(dollars in thousands)	2019	2018	2017	2016	2015
Proportion of the net pension liability	.701021%	.689768%	.688436%	.681594%	.672073%
Proportionate share of the net pension liability	$ 6,809	$ 11,777	$ 23,920	$ 34,318	$ 24,014
Covered-employee payroll	$ 78,421	$ 74,348	$ 69,866	$ 65,077	$ 64,259
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.68%	15.84%	34.24%	52.73%	37.37%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

PERS PLAN 1

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2019	2018	2017	2016	2015	2014	2013	2012	2001	2010
Contractually required contribution	$ 31	$ 44	$ 53	$ 50	$ 64	$ 70	$ 74	$ 75	$ 78	$ 69
Contributions in relation to the contractually required contribution	(31)	(44)	(53)	(50)	(64)	(70)	(74)	(75)	(78)	(69)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 237	$ 342	$ 448	$ 447	$ 630	$ 765	$ 913	$ 1,047	$ 1,332	$ 1,301
Contributions as a percentage of covered-employee payroll	12.66%	12.87%	11.83%	11.18%	10.21%	9.21%	8.11%	7.20%	5.82%	5.31%

PERS PLAN 2/3

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2019	2018	2017	2016	2015	2014	2013	2012	2001	2010
Contractually required contribution	$ 10,073	$ 9,469	$ 8,328	$ 7,276	$ 6,539	$ 5,428	$ 4,575	$ 3,943	$ 3,284	$ 2,795
Contributions in relation to the contractually required contribution	(10,073)	(9,469)	(8,328)	(7,276)	(6,539)	(5,428)	(4,575)	(3,943)	(3,284)	(2,795)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 78,421	$ 74,348	$ 69,866	$ 65,077	$ 64,259	$ 58,959	$ 56,186	$ 54,778	$ 53,085	$ 52,632
Contributions as a percentage of covered-employee payroll	12.84%	12.74%	11.92%	11.18%	10.18%	9.21%	8.14%	7.20%	6.19%	5.31%

SCHEDULE OF CHANGES IN NET OPEB ASSET AND RELATED RATIOS

Fiscal Year End Date	Fiduciary Net Position (a)	Total OPEB Liability (b)	Net OPEB (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Net OPEB as a Percentage of Covered Payroll ((b – a) / c))
12/31/19	$ 1,493,009	$ 979,400	$ (513,609)	152%	$ 74,917,044	(0.69)%
12/31/18	1,265,976	862,908	(403,068)	147%	63,455,719	(0.64)%
12/31/17	1,371,296	820,150	(551,146)	167%	61,162,139	(0.90)%
12/31/16	1,493,891	1,030,417	(463,474)	145%	58,951,459	(0.79)%
12/31/15	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/14	2,455,113	1,042,605	(1,412,508)	235%	55,857,915	(2.53)%
12/31/13	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/12	2,147,126	1,170,296	(976,830)	183%	50,234,113	(1.94)%
12/31/11	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%
12/31/10	2,186,952	1,417,889	(769,063)	154%	48,550,921	(1.58)%

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COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2019, with comparative totals for December 31, 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 73,333	$ -	$ -	$ (792)	$ 72,541	$ 57,000
Wholesale sales	71,212	117,897	10,768	218,236	8,240	-	(155,803)	270,550	303,823
Other operating revenues	12,682	127	1,038	39,762	-	23,466	(34,980)	42,095	25,698
	83,894	118,024	11,806	331,331	8,240	23,466	(191,575)	385,186	386,521
OPERATING EXPENSES									
Purchased power and water	-	-	-	201,916	-	-	(152,463)	49,453	53,201
Generation	52,733	50,788	5,478	-	-	-	(16,818)	92,181	98,924
Utility services	-	-	-	73,600	-	-	(19,947)	53,653	49,678
Other operation and maintenance	-	-	-	-	-	18,853	(2,347)	16,506	14,823
Taxes	1,032	518	80	8,112	-	-	-	9,742	8,541
Depreciation and amortization	9,988	11,292	1,940	15,616	-	4,739	-	43,575	44,186
	63,753	62,598	7,498	299,244	-	23,592	(191,575)	265,110	269,353
OPERATING INCOME (LOSS)	20,141	55,426	4,308	32,087	8,240	(126)	-	120,076	117,168
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(598)	(11,454)	-	(29)	(11,861)	-	-	(23,942)	(25,202)
Interest on intersystem loans	(8,536)	(11,600)	(545)	-	20,681	-	-	-	-
Amortization of regulatory assets - debt issuance costs	(18)	(263)	-	-	(392)	-	-	(673)	(700)
Investment income	1,114	3,968	173	7,407	1,668	818	-	15,148	11,435
Federal subsidy income	-	-	-	-	592	-	-	592	590
Other	(209)	(2,730)	(1,116)	4,742	(3,126)	(643)	-	(3,082)	(3,957)
	(8,247)	(22,079)	(1,488)	12,120	7,562	175	-	(11,957)	(17,834)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND INTERFUND TRANSFERS	11,894	33,347	2,820	44,207	15,802	49	-	108,119	99,334
CAPITAL CONTRIBUTIONS	-	628	-	5,190	-	-	-	5,818	5,934
INTERFUND TRANSFERS	(3,065)	(2,713)	(424)	(3,465)	-	9,667	-	-	-
CHANGE IN NET POSITION	8,829	31,262	2,396	45,932	15,802	9,716	-	113,937	105,268
TOTAL NET POSITION									
Beginning of year	182,792	109,465	77,372	514,617	104,468	9,761	-	998,475	893,207
TOTAL NET POSITION									
End of year	$ 191,621	$ 140,727	$ 79,768	$ 560,549	$ 120,270	$ 19,477	$ -	$ 1,112,412	$ 998,475

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, 2019 and 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
CURRENT ASSETS									
Cash and cash equivalents	$ 750	$ 934	$ 564	$ 24,338	$ 3,008	$ 1,870	$ -	$ 31,464	$ 23,306
Investments	2,255	2,812	1,696	73,206	9,045	5,625	-	94,639	86,154
Accounts receivable, net	2,311	1,471	23	25,675	-	265	-	29,745	37,484
Accrued interest receivable	98	248	14	624	286	66	-	1,336	1,680
Materials and supplies	4,034	-	-	9,229	-	139	-	13,402	13,212
Prepayments and other	477	405	71	1,007	-	62	-	2,022	1,154
Current portion of regulatory assets	29	27	-	51	2,865	6	-	2,978	2,978
	9,954	5,897	2,368	134,130	15,204	8,033	-	175,586	165,968
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	730	2,095	1	52	-	643	-	3,521	2,309
Investments	2,196	6,297	-	155	-	1,934	-	10,582	8,527
	2,926	8,392	1	207	-	2,577	-	14,103	10,836
TOTAL CURRENT ASSETS	12,880	14,289	2,369	134,337	15,204	10,610	-	189,689	176,804
UTILITY PLANT									
In service, at original cost	644,491	622,333	120,562	599,347	-	118,872	-	2,105,605	2,069,130
Construction work in progress	4,628	98,494	110	5,873	-	17,517	-	126,622	100,838
Less-accumulated depreciation	(362,663)	(306,812)	(33,815)	(271,466)	-	(73,552)	-	(1,048,308)	(1,023,960)
	286,456	414,015	86,857	333,754	-	62,837	-	1,183,919	1,146,008
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	2,111	25,993	-	-	547	-	-	28,651	2,863
Investments	32,892	102,644	-	471	18,220	5,851	-	160,078	120,320
	35,003	128,637	-	471	18,767	5,851	-	188,729	123,183
OTHER ASSETS									
Long-term receivables, net	-	-	-	326	-	-	-	326	406
Long-term investments	6,825	8,508	5,132	221,506	27,370	17,021	-	286,362	347,803
Regulatory assets, net	242	2,508	-	20,529	14,586	16	-	37,881	40,712
Derivative instrument asset	-	6,594	-	-	-	-	-	6,594	5,294
Other	51	51	-	11,820	-	533	(11,580)	875	755
	7,118	17,661	5,132	254,181	41,956	17,570	(11,580)	332,038	394,970
TOTAL ASSETS	341,457	574,602	94,358	722,743	75,927	96,868	(11,580)	1,894,375	1,840,965
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	2,015	-	-	2,170	-	-	4,185	5,109
Pensions	2,218	2,220	251	3,245	-	-	-	7,934	6,554
Other post-employment benefits	-	-	-	-	-	170	-	170	101
	2,218	4,235	251	3,245	2,170	170	-	12,289	11,764
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 343,675	$ 578,837	$ 94,609	$ 725,988	$ 78,097	$ 97,038	$ (11,580)	$ 1,906,664	$ 1,852,729

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

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

For the years ended December 31, 2019 and 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 11,354	$ 31,335	$ 1,901	$ 726	$ (6,814)	$ -	$ -	$ 38,502	$ 36,937
Current portion of unearned wholesale power sales	717	740	-	12,934	637	-	-	15,028	14,942
Accounts payable	5,367	14,001	330	15,005	-	12,126	-	46,829	55,343
Accrued taxes	1,099	572	81	2,012	-	408	-	4,172	4,034
Accrued interest	293	134	-	14	5,136	-	-	5,577	6,185
Intersystem payables (receivables)	(1,706)	(1,244)	(677)	10,983	-	(7,356)	-	-	-
Accrued vacation and other	40	42	3	72	-	16,162	-	16,319	15,347
	17,164	45,580	1,638	41,746	(1,041)	21,340	-	126,427	132,788
LONG-TERM DEBT									
Revenue bonds and notes payable	11,898	190,210	-	6,290	267,613	-	-	476,011	517,315
Intersystem loans payable (receivable)	105,267	178,633	4,174	(19,981)	(323,820)	55,727	-	-	-
Less current maturities	(11,354)	(31,335)	(1,570)	(726)	6,814	-	-	(38,171)	(36,516)
	105,811	337,508	2,604	(14,417)	(49,393)	55,727	-	437,840	480,799
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	7,135	7,357	-	114,668	6,342	-	(11,580)	123,922	137,899
Net pension liability	7,784	7,794	879	11,398	-	-	-	27,855	36,180
Long-term contract customer deposit	9,250	9,250	-	-	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	9,172	-	-	-	-	9,172	8,940
Other liabilities	-	785	-	-	-	-	-	785	594
	24,169	25,186	10,051	126,066	6,342	-	(11,580)	180,234	202,113
TOTAL LIABILITIES	147,144	408,274	14,293	153,395	(44,092)	77,067	(11,580)	744,501	815,700
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,594	-	-	-	-	-	6,594	5,294
Pensions	4,370	4,376	493	6,399	-	-	-	15,638	13,611
Regulatory liabilities	540	18,866	55	5,645	1,919	244	-	27,269	19,578
Other postemployment benefits	-	-	-	-	-	250	-	250	71
	4,910	29,836	548	12,044	1,919	494	-	49,751	38,554
TOTAL NET POSITION	191,621	140,727	79,768	560,549	120,270	19,477	-	1,112,412	998,475
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 343,675	$ 578,837	$ 94,609	$ 725,988	$ 78,097	$ 97,038	$ (11,580)	$ 1,906,664	$ 1,852,729

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

COMBINING SCHEDULE OF CASH FLOWS

For the year ended December 31, 2019, with comparative totals for December 31, 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 70,847	$ 117,258	$ 11,808	$ 324,978	$ 7,522	$ 23,224	$ (191,851)	$ 363,786	$ 425,742
Payments to suppliers	(32,593)	(26,968)	(3,550)	(255,253)	(8)	(8,070)	191,851	(134,591)	(121,525)
Payments to employees	(30,708)	(28,784)	(3,527)	(38,779)	-	404	-	(101,394)	(95,735)
Insurance proceeds	16,275	-	-	1,696	-	-	-	17,971	-
Net cash provided by operating activities	23,821	61,506	4,731	32,642	7,514	15,558	-	145,772	208,482
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(2,459)	(32,771)	(1,031)	(22,459)	-	(26,831)	-	(85,551)	(91,032)
Additions to pooled assets	101	85	12	-	-	(198)	-	-	-
Proceeds from sale of plant	114	54	-	58	-	1,420	-	1,646	260
Proceeds of new intersystem loans	-	87,000	-	-	(87,000)	-	-	-	-
Proceeds of new third party debt	-	-	-	601	-	-	-	601	-
Principal (paid) received on debt & intersystem loans	(17,889)	(34,537)	(2,000)	(3,973)	(7,273)	13,484	-	(52,188)	(35,462)
Interest (paid) received on debt & intersystem loans	(9,147)	(11,888)	(545)	(31)	8,238	-	-	(13,373)	(13,662)
Capital contributions	-	101	-	7,229	-	-	-	7,330	4,511
Other	(263)	(2,566)	(1,119)	(1,410)	(120)	78	-	(5,400)	(4,184)
Net cash (used in) provided by capital and related financing activities	(29,543)	5,478	(4,683)	(19,985)	(86,155)	(12,047)	-	(146,935)	(139,569)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	5,493	(44,950)	89	(10,950)	73,973	(3,264)	-	20,391	(82,002)
Interest on investments	1,204	3,854	175	7,578	2,131	831	-	15,773	11,780
Long-term receivables	-	-	-	80	-	-	-	80	100
Other, net	-	191	(114)	-	-	-	-	77	366
Net cash (used in) provided by investing activities	6,697	(40,905)	150	(3,292)	76,104	(2,433)	-	36,321	(69,756)
NET DECREASE IN CASH & CASH EQUIVALENTS	975	26,079	198	9,365	(2,537)	1,078	-	35,158	(843)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	2,616	2,943	367	15,025	6,092	1,435	-	28,478	29,321
CASH & CASH EQUIVALENTS, END OF YEAR	$ 3,591	$ 29,022	$ 565	$ 24,390	$ 3,555	$ 2,513	$ -	$ 63,636	$ 28,478

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

COMBINING SCHEDULE OF CASH FLOWS (CONT.)

For the year ended December 31, 2019, with comparative totals for December 31, 2018

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	$ 20,141	$ 55,426	$ 4,308	$ 32,087	$ 8,240	$ (126)	$ -	$ 120,076	$ 117,168
Depreciation and amortization	9,988	11,292	1,940	15,616	-	4,739	-	43,575	44,186
(Increase) decrease in operating assets:									
Accounts receivable, net	(131)	(157)	2	8,267	-	(242)	-	7,739	(9,748)
Materials and supplies	(509)	-	-	230	-	89	-	(190)	(381)
Prepayments	(46)	(40)	(7)	(731)	-	(44)	-	(868)	334
Net OPEB asset	-	-	-	-	-	(111)	-	(111)	148
Other	(3,065)	(2,713)	(424)	(215)	-	9,667	-	3,250	2,643
Deferred outflows of resources	(457)	(358)	18	(583)	-	(69)	-	(1,449)	778
Increase (decrease) in operating liabilities:									
Current portion unearned wholesale power sales	24	50	-	-	12	-	-	86	6,040
Accounts payable	(2,753)	(118)	(467)	(5,532)	(8)	1,484	-	(7,394)	11,072
Accrued taxes	(230)	(76)	(4)	327	-	121	-	138	(105)
Accrued vacation and other	2,450	451	49	(1,849)	-	(129)	-	972	348
Unearned wholesale revenue	(459)	(660)	-	(12,934)	(730)	-	-	(14,783)	45,007
Customer deposits	-	1	-	16	-	-	-	17	(1,802)
Net pension liability	(1,920)	(2,489)	(615)	(3,301)	-	-	-	(8,325)	(13,508)
Deferred inflows of resources	788	897	(69)	1,244	-	179	-	3,039	6,302
Net cash provided by operating activities	$ 23,821	$ 61,506	$ 4,731	$ 32,642	$ 7,514	$ 15,558	$ -	$ 145,772	$ 208,482
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ 1,113	$ (3,641)	$ (899)	$ 2,476	$ -	$ (186)	$ -	$ (1,137)	$ (507)
Capital contributions	-	-	-	93	-	-	-	93	853

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

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BONDHOLDER-FIDUCIARIES

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

ADDRESSES:

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

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

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

CONTINUING DISCLOSURE

CONTINUING DISCLOSURE INFORMATION

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

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

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

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

DISTRIBUTION DIVISION

Five Largest Local Wholesale Purchasers and Major Retail Customers 2019 (1) (Unaudited)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	265	$ 4,031	1.3%
Stemilt Growers Inc.	Agriculture	62	1,216	0.4%
Salcido Enterprises LLC	High Density Load	39	714	0.2%
Confluence Health	Medical	30	626	0.2%
Chelan Fruit Cooperative	Agriculture	29	586	0.2%
		425	$ 7,173	2.3%

1. Excludes non-firm sales for resale and off-system sales.

DISTRIBUTION DIVISION

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

Calendar Year	2015	2016	2017	2018	2019
Operating revenues					
Retail	$ 48,014	$ 48,447	$ 53,468	$ 51,069	$ 66,358
Resale (1)	188,436	201,134	209,412	238,946	207,731
Other (2)	25,744	27,380	37,513	34,433	39,679
Total	262,194	276,961	300,393	324,448	313,768
Operating expenses	225,526	246,547	265,007	289,623	281,002
Net operating revenue	36,668	30,414	35,386	34,825	32,766
Other income	969	5,262	6,013	8,566	11,642
Net revenue (3)	$ 37,637	$ 35,676	$ 41,399	$ 43,391	$ 44,408

1. Includes contractual purchases and non-firm purchases for resale.

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

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

DISTRIBUTION DIVISION

Energy Requirements, Resources and Power Costs (Unaudited)

Calendar Year	2015	2016	2017	2018	2019
Requirements (000 MWh) (1)					
Retail	1,554	1,571	1,748	1,657	1,979
Other	7,467	8,288	8,348	9,423	8,355
	9,021	9,859	10,096	11,080	10,334
Resources (000 MWh)					
Rocky Reach System	2,824	2,839	2,872	2,931	2,363
Rock Island System	1,450	1,407	1,401	1,378	1,155
Lake Chelan System	440	471	461	371	355
Other purchases (2)	4,307	5,142	5,362	6,400	6,461
	9,021	9,859	10,096	11,080	10,334
Purchased Power Costs ($000)					
Rocky Reach System	$ 47,926	$ 53,812	$ 48,955	$ 47,297	$ 34,990
Rock Island System	50,443	50,679	51,601	52,370	59,065
Lake Chelan System	8,185	8,649	7,909	12,826	10,768
Other purchases (2)	57,475	68,465	85,488	103,645	97,342
	$ 164,029	$ 181,605	$ 193,953	$ 216,138	$ 202,165
Average cost ($/MWh) (3)	$ 18	$ 18	$ 19	$ 20	$ 20

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

DISTRIBUTION DIVISION

Customers, Energy Sales and Revenues (Unaudited)

Calendar Year	2015	2016	2017	2018	2019
Customers					
Retail:					
Residential	37,222	37,708	38,161	38,783	39,453
Commercial	6,290	6,296	6,316	6,383	6,446
Industrial	30	31	29	30	30
High density load	-	-	19	20	13
Irrigation, frost, lighting	5,617	5,616	5,600	5,602	5,592
Interdepartmental	543	556	555	563	612
Total retail customers	49,702	50,207	50,680	51,381	52,146
Resale:	87	86	86	88	88
Total customers	49,789	50,293	50,766	51,469	52,234
Energy Sales (000 MWh)					
Retail:					
Residential	742	756	881	810	879
Commercial	482	491	499	465	478
Industrial	256	265	239	243	247
High density load	-	-	68	77	81
Irrigation, frost, lighting	48	43	40	40	36
Interdepartmental	26	16	21	22	20
Total retail sales	1,554	1,571	1,748	1,657	1,741
Other End-Use:					
Off-system sales (1)	-	-	-	-	238
Resale:					
Alcoa Corp. (1)	88	-	-	-	-
Douglas County PUD	325	331	324	329	265
Other – firm/slice	2,155	2,147	2,165	2,443	1,745
Other – non firm/block/preschedule/real time (2)	4,714	6,088	6,046	6,585	6,008
Total sales for resale	7,282	8,566	8,535	9,357	8,018
Total energy sales	8,836	10,137	10,283	11,014	9,997
Revenue ($000)					
Retail:					
Residential	$ 24,021	$ 24,424	$ 27,944	$ 26,019	$ 27,985
Commercial	16,348	16,666	17,004	15,976	16,438
Industrial	5,185	5,366	4,896	5,001	5,072
High density load	-	-	1,504	1,781	1,845
Irrigation, frost, lighting	1,722	1,529	1,499	1,492	1,465
Interdepartmental	738	463	621	800	600
Total retail revenue	48,014	48,448	53,468	51,069	53,405
Other End-Use:					
Off-system sales (1)	-	-	-	-	12,953
Resale:					
Alcoa Corp. (2)	2,207	6,197	6,694	9,914	12,934
Douglas County PUD	5,204	5,510	5,353	5,013	4,031
Other – firm/slice	84,262	75,431	78,934	81,287	70,241
Other – non firm/block/preschedule/real time	96,763	113,995	118,431	142,731	120,525
Total resale revenue	188,436	201,133	209,412	238,945	207,731
Other revenue (3)	25,744	27,380	37,513	34,433	39,679
Total revenue	$ 262,194	$ 276,961	$ 300,393	$ 324,447	$ 313,768

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

2. In December 2015, Alcoa Corp. curtailed its Wenatchee Works smelting facility. Proceeds from the sale of any unused power, in excess of Alcoa Corp's monthly contractual costs, are retained by the District.

3. Includes amortization of capacity reservation charge.

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

HYDROELECTRIC SYSTEMS

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

Calendar Year	2015	2016	2017	2018	2019
Rocky Reach System					
Operating expenses	$ 49,728	$ 65,363	$ 56,801	$ 58,643	$ 53,765
Depreciation and amortization	16,634	16,951	17,299	12,313	9,988
Interest expense	13,336	12,434	11,377	10,144	9,134
Other (revenue) expense (1)	(440)	(665)	(1,344)	(585)	(13,569)
Total power cost (2)	$ 79,258	$ 94,083	$ 84,133	$ 80,515	$ 59,318
Net power delivered (000 MWh)	5,748	5,833	5,862	5,986	4,795
Cost in $/MWh	$ 14	$ 16	$ 14	$ 13	$ 12
Plant factor (3)	50%	51%	51%	53%	42%
Availability factor	79%	73%	79%	78%	68%
Average river flow (000 CFS) (4)	103	107	131	125	87
Rock Island System					
Operating expenses	$ 39,057	$ 42,909	$ 44,426	$ 47,089	$ 51,306
Depreciation and amortization	10,975	11,297	10,322	10,790	11,292
Interest expense	24,457	23,520	22,610	21,485	23,055
Other (revenue) expense (1)	(772)	(426)	(815)	(316)	(1,729)
Total power cost (2)	$ 73,717	$ 77,300	$ 76,543	$ 79,048	$ 83,924
Net power delivered (000 MWh) (5)	2,932	2,853	2,820	2,782	2,347
Cost in $/MWh	$ 25	$ 27	$ 27	$ 28	$ 36
Plant factor (3)	53%	52%	51%	50%	43%
Availability factor	81%	62%	59%	59%	55%
Lake Chelan System					
Operating expenses	$ 5,134	$ 6,018	$ 5,587	$ 10,364	$ 5,558
Depreciation and amortization	1,889	1,887	1,902	1,902	1,940
Interest expense	836	770	700	626	545
Other (revenue) expense (1)	(3)	(35)	(48)	(77)	(95)
Total power cost (2)	$ 7,856	$ 8,640	$ 8,141	$ 12,815	$ 7,948
Net power delivered (000 MWh)	440	471	461	371	355
Cost in $/MWh	$ 18	$ 18	$ 18	$ 35	$ 22
Plant factor (3)	85%	91%	89%	72%	69%
Availability factor	89%	92%	97%	75%	96%
Combined Hydro Cost in $/MWh	$ 18	$ 20	$ 18	$ 19	$ 20

1. Includes other income and expenses that impact power cost.

2. Non-GAAP, may not be comparable with similarly titled other District metrics.

3. Net power delivered as a percentage of rated capacity for the year.

4. Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).

5. After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.

CONSOLIDATED SYSTEM

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

Calendar Year	2015	2016	2017	2018	2019
Operating revenues (1)					
Retail	$ 54,009	$ 54,653	$ 60,088	$ 57,993	$ 73,333
Resale	219,650	228,371	236,087	269,808	237,669
Other	44,009	45,728	58,020	56,466	64,266
Total	317,668	328,752	354,195	384,267	375,268
Less: Operating expenses					
Purchased power and water	(164,338)	(181,905)	(194,261)	(216,487)	(202,726)
Other operation & maintenance	(74,866)	(79,770)	(85,434)	(95,010)	(97,809)
Taxes	(5,388)	(5,802)	(7,011)	(6,645)	(8,192)
Depreciation & amortization	(19,700)	(19,048)	(19,912)	(21,083)	(22,294)
Operating income	53,376	42,227	47,577	45,042	44,247
Adjustments					
Add back depreciation & amortization	19,700	19,048	19,912	21,083	22,294
Add investment income	3,051	3,651	4,746	7,892	10,066
Add principal and interest payments from Rocky Reach & Rock Island	48,520	46,650	45,196	37,233	38,665
Total adjustments	71,271	69,349	69,854	66,208	71,025
Net revenues	124,647	111,576	117,431	111,250	115,272
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 124,647	$ 111,576	$ 117,431	$ 111,250	$ 115,272
Available funds (2)	$ 202,221	$ 272,163	$ 313,579	$ 423,839	$ 372,232
Annual debt service	$ 42,751	$ 28,280	$ 28,236	$ 26,493	$ 25,983
Debt service coverage					
With available funds (min 1.25x)	7.65	13.57	15.26	20.20	18.76
Without available funds (min 1.00x)	2.92	3.95	4.16	4.20	4.44

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, 2019 ($000) (Unaudited)

Date of Bonds	Final Maturity Date	Series of Bonds	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Principal Amount Outstanding	Accumulated for Retirement (3)
CONSOLIDATED SYSTEM							
6/3/2009	7/1/2032	2008B	$ 92,880	$ 30,915	$ 31,685	$ 61,195	$ 972
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	49,275	49,275	58,225	5,244
6/1/2011	7/1/2026	2011B	72,220	33,105	33,105	39,115	3,377
11/9/2011	7/1/2026	2011C	164,425	69,360	85,030	79,395	5,351
Total Consolidated System			464,040	182,655	199,095	264,945	16,744
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	235,245	235,245	184,303	32,054
8/11/2009	7/1/2029	2009A	14,000	3,945	8,110	5,890	608
Total Rock Island System			149,944	239,190	243,355	190,193	32,662
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	4,185	4,185	11,710	764
Total Rocky Reach System			15,895	4,185	4,185	11,710	764
Grand Total			$ 629,879	$ 426,030	$ 446,635	$ 466,848	$ 50,170

1. *Amount of serial bonds matured as of December 31, 2019 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, 2019 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, 2019 ($000) (Unaudited)

	Net Loans Outstanding (1)
Rocky Reach System	$ 105,267
Rock Island System	178,633
Consolidated System (2)	39,921
	$ 323,821

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

CONSOLIDATED SYSTEM DEBT SERVICE AND HYDROELECTRIC SYSTEM LOAN PAYMENTS

As of December 31, 2019 (Unaudited)

	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service					
Year	Principal (2)	Interest (3)	Total	Rocky Reach	Rock Island	Total Loan Payments
2020	$ 13,735,000	$ 11,452,143	$ 25,187,143	$ 18,682,912	$ 20,613,413	$ 39,296,325
2021	26,650,000	10,447,954	37,097,954	16,995,034	19,875,295	36,870,329
2022	27,820,000	9,327,717	37,147,717	16,995,986	19,693,725	36,689,711
2023	29,085,000	8,114,495	37,199,495	16,928,190	19,687,391	36,615,581
2024	30,470,000	6,786,253	37,256,253	16,872,091	19,215,015	36,087,106
2025	33,965,000	5,374,401	39,339,401	14,732,661	18,761,232	33,493,893
2026	21,613,353	3,807,711	25,421,064	13,050,225	18,701,620	31,751,845
2027	1,970,000	2,135,182	4,105,182	11,627,056	18,700,824	30,327,880
2028	2,865,000	2,051,435	4,916,435	10,208,263	19,318,353	29,526,616
2029	1,290,000	1,975,550	3,265,550	8,878,935	15,112,245	23,991,180
2030	1,345,000	1,918,164	3,263,164	7,463,981	16,564,170	24,028,151
2031	1,405,000	1,856,082	3,261,082	6,054,618	16,049,049	22,103,667
2032	45,512,775	1,212,721	46,725,496	4,803,146	14,911,880	19,715,026
2033	1,530,000	566,592	2,096,592	4,220,632	14,859,165	19,079,797
2034	1,600,000	495,970	2,095,970	3,961,897	14,398,918	18,360,815
2035	1,675,000	422,117	2,097,117	2,638,751	13,427,904	16,066,655
2036	1,745,000	344,802	2,089,802	1,388,256	13,268,747	14,657,003
2037	1,825,000	264,256	2,089,256	289,191	13,004,724	13,293,915
2038	1,905,000	180,017	2,085,017	289,191	12,189,329	12,478,520
2039	194,940	92,086	287,026	146,202	8,792,291	8,938,493
2040	-	-	-	-	6,734,004	6,734,004
2041	-	-	-	-	6,629,707	6,629,707
2042	-	-	-	-	6,350,711	6,350,711
2043	-	-	-	-	6,079,457	6,079,457
2044	-	-	-	-	1,429,016	1,429,016
Total	$ 248,201,068	$ 68,825,648	$ 317,026,716	$ 176,227,218	$ 354,368,185	$ 530,595,403

1. *Represents loan payment obligations of the Rocky Reach and Rock Island Hydroelectric Systems to the Consolidated System with respect to intersystem loans from the Consolidated System.*
2. *Estimated principal retirements are based on the assumption that all bonds mature or are purchased at par. Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity. The District may elect to utilize the Reserve Accounts other than assumed 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, 2019 ($000) (Unaudited)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 54,369	$ 838	$ 5,767	$ 12,876	$ 73,850
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	151,294	-	-	-	151,294
Other unrestricted funds (5)	63,388	6,554	33,656	11,640	115,238
Total unrestricted funds	319,051	7,392	39,423	24,516	390,382
Restricted funds (6)	678	1	18,767	8,428	27,874
Total fund balances	$ 319,729	$ 7,393	$ 58,190	$ 32,944	$ 418,256

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	2015	2016	2017	2018	2019
Original system net generation	481	491	463	425	334
Second powerhouse net generation	2,272	2,190	2,194	2,245	1,942
Total generation	2,753	2,681	2,657	2,670	2,276
Plus:					
Wanapum encroachment (1)	506	511	464	451	398
Net interchange	23	17	39	9	8
System losses by contract	(9)	(15)	(17)	(18)	(17)
Less:					
Canadian Treaty Power (2)	(160)	(159)	(158)	(156)	(156)
Rocky Reach Encroachment (3)	(181)	(183)	(165)	(174)	(162)
Total net power delivered (4)	2,932	2,852	2,820	2,782	2,347
Percentage allocations (5)					
Power Purchasers	51%	51%	51%	51%	51%
District	49%	49%	49%	49%	49%
Sales:					
Power Purchasers	1,482	1,445	1,419	1,404	1,194
District	1,450	1,407	1,401	1,378	1,153
Total sales (4)	2,932	2,852	2,820	2,782	2,347
Net peaking capability	629	629	629	629	629
Availability factor	81%	62%	59%	59%	55%
Plant factor (6)	53%	52%	51%	50%	43%

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

ROCK ISLAND SYSTEM

Cost of Power Comparison ($/MWh) (Unaudited)

Calendar Year	2015	2016	2017	2018	2019
Rock Island System	$ 25	$ 27	$ 27	$ 28	$ 36
Bonneville Power (1)	$ 40	$ 40	$ 40	$ 42	$ 42

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

ROCK ISLAND SYSTEM

Historical and Projected Annual Capital Requirements ($000)

Actual Calendar Year	**2015**	**2016**	**2017**	**2018**	**2019**
Rock Island System	$ 11,320	$ 33,708	$ 33,001	$ 46,622	$ 28,504
Projected Calendar Year (1)	**2020**	**2021**	**2022**	**2023**	**2024**
Rock Island System	$ 78,780	$ 64,260	$ 56,416	$ 39,647	$ 40,074

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

ROCK ISLAND SYSTEM

Cash Available for Debt Service ($000) (Unaudited)

Calendar Year	**2015**	**2016**	**2017**	**2018**	**2019**
Operating revenues:					
Power Purchasers	$ 51,201	$ 51,448	$ 52,391	$ 53,209	$ 60,152
District	49,166	49,402	50,324	51,093	57,745
Total revenues from sales	100,367	100,850	102,715	104,302	117,897
Other operating revenues	168	158	143	147	127
Total operating revenues	100,535	101,008	102,858	104,449	118,024
Total operating expenses (1)	50,032	54,207	54,748	57,879	62,598
Net operating revenues	50,503	46,801	48,110	46,570	55,426
Other expense	(24,649)	(23,930)	(23,036)	(21,939)	(22,079)
Net revenues	25,854	22,871	25,074	24,631	33,347
Add back:					
Depreciation	10,975	11,297	10,322	10,790	11,292
Interest expense	24,457	23,520	22,610	21,485	23,054
Amortization of deferred debt costs	270	290	265	264	263
Other (2)	165	337	395	191	105
Deduct:					
Amortization of deferred power sales revenue	(651)	(655)	(669)	(690)	(892)
Cash available for debt service	61,070	57,660	57,997	56,671	67,169
Annual debt service:					
Rock Island Bonds	23,422	23,421	23,420	22,973	23,438
Intersystem loans	17,668	16,246	15,981	15,123	18,780
Total debt service requirement	41,090	39,667	39,401	38,096	42,218
Cash available after payment of all debt service	$ 19,980	$ 17,993	$ 18,596	$ 18,575	$ 24,951
Coverage of total debt service	1.49	1.45	1.47	1.49	1.59

1. *Includes depreciation expense.*
2. *Represents noncash items such as fair value adjustments and amortizations included in operating activities that are not indicative of cash available for debt service.*

ROCK ISLAND SYSTEM

Debt Service Requirements as of December 31, 2019 (Unaudited)

Twelve Months Ending Dec. 31	Bonds Estimated Debt Service	Bonds Estimated Principal Retirements (2)(3)	Subordinate Lien Bonds Estimated Debt Service	Subordinate Lien Bonds Estimated Principal Retirements (2)	Intersystem Loans (1) Estimated Debt Service	Intersystem Loans (1) Estimated Principal Retirements	Total Estimated Debt Service
2020	$ 22,685,000	$ 22,685,000	$ 753,956	$ 485,000	$ 20,613,413	$ 8,481,879	$ 44,052,369
2021	22,685,000	22,685,000	754,556	505,000	19,875,295	8,258,173	43,314,851
2022	22,685,000	22,685,000	754,356	525,000	19,693,725	8,572,715	43,133,081
2023	22,685,000	22,685,000	753,356	545,000	19,687,391	9,084,176	43,125,747
2024	22,685,000	22,685,000	751,556	565,000	19,215,015	9,152,112	42,651,571
2025	22,685,000	22,685,000	753,250	590,000	18,761,232	9,245,451	42,199,482
2026	22,685,000	22,685,000	753,750	620,000	18,701,620	9,737,365	42,140,370
2027	22,685,000	22,685,000	752,750	650,000	18,700,824	10,318,636	42,138,574
2028	22,685,000	22,685,000	755,250	685,000	19,318,353	11,552,168	42,758,603
2029	12,541,000	12,541,000 (4)	147,994	111,994 (4)	15,112,245	7,926,246	27,801,239
2030	-	-	-	-	16,564,170	9,930,063	16,564,170
2031	-	-	-	-	16,049,049	9,991,755	16,049,049
2032	-	-	-	-	14,911,880	9,447,055	14,911,880
2033	-	-	-	-	14,859,165	9,942,364	14,859,165
2034	-	-	-	-	14,398,918	10,064,140	14,398,918
2035	-	-	-	-	13,427,904	9,670,618	13,427,904
2036	-	-	-	-	13,268,747	10,059,160	13,268,747
2037	-	-	-	-	13,004,724	10,366,454	13,004,724
2038	-	-	-	-	12,189,329	10,144,107	12,189,329
2039	-	-	-	-	8,792,291	7,312,613	8,792,291
2040	-	-	-	-	6,734,004	5,639,669	6,734,004
2041	-	-	-	-	6,629,707	5,795,530	6,629,707
2042	-	-	-	-	6,350,711	5,781,447	6,350,711
2043	-	-	-	-	6,079,457	5,768,788	6,079,457
2044	-	-	-	-	1,429,016	1,385,525	1,429,016
Total	$ 216,706,000	$ 216,706,000	$ 6,930,774	$ 5,281,994	$ 354,368,185	$ 213,628,209	$ 578,004,959

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

ROCK ISLAND SYSTEM

Operating Results and Debt Service Coverage ($000) (Unaudited)
As defined in the Subordinate Rock Island Master Resolution 08-13391

Calendar Year	2015	2016	2017	2018	2019
Operating revenue					
Wholesale sales (1)	$ 100,367	$ 100,850	$ 102,715	$ 104,302	$ 117,897
Other operating revenues	168	158	143	147	127
Total operating revenues	100,535	101,008	102,858	104,449	118,024
Operating expenses					
Operations & maintenance	(38,421)	(42,273)	(43,805)	(46,479)	(50,788)
Taxes	(637)	(637)	(621)	(610)	(518)
Depreciation and amortization	(10,975)	(11,297)	(10,322)	(10,790)	(11,292)
Total operating expense	(50,033)	(54,207)	(54,748)	(57,879)	(62,598)
Operating income	50,502	46,801	48,110	46,570	55,426
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(17,668)	(16,246)	(15,981)	(15,123)	(18,780)
Add back depreciation and amortization	10,975	11,297	10,322	10,790	11,292
Add investment income	2,079	2,370	2,297	2,324	3,968
Total adjustments	(4,614)	(2,579)	(3,362)	(2,009)	(3,520)
Net revenues	$ 45,888	$ 44,222	$ 44,748	$ 44,561	$ 51,906
Annual debt service					
Bonds	$ 22,685	$ 22,685	$ 22,685	$ 22,685	$ 22,685
Subordinate Bonds	737	736	735	288	753
Total debt service	$ 23,422	$ 23,421	$ 23,420	$ 22,973	$ 23,438
Debt service coverage					
Without available funds (required 1.00x)	1.96	1.89	1.91	1.94	2.21

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

2. *Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.*

CREATING
COMMUNITY
VALUE

ROCKY REACH SYSTEM

Debt Service Requirements as of December 31, 2019 (Unaudited)

	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
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	$ 16,159,550	$ 10,945,550	$ 176,227,218	$ 121,222,766	$ 192,386,768

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) (Unaudited)
As defined in the Rocky Reach Master Resolution 08-13390

Calendar Year	2015	2016	2017	2018	2019
Operating revenue					
Wholesale sales (1)	$ 96,575	$ 109,610	$ 99,684	$ 96,313	$ 71,212
Other operating revenues	208	204	914	199	12,682
Total operating revenues	96,783	109,814	100,598	96,512	83,894
Operating expenses					
Operations & maintenance	(48,493)	(64,112)	(55,541)	(57,357)	(52,733)
Taxes	(1,235)	(1,251)	(1,260)	(1,286)	(1,032)
Depreciation and amortization	(16,634)	(16,951)	(17,299)	(12,313)	(9,988)
Total operating expenses	(66,362)	(82,314)	(74,100)	(70,956)	(63,753)
Operating income	30,421	27,500	26,498	25,556	20,141
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(30,852)	(30,404)	(29,215)	(22,110)	(19,885)
Add back depreciation and amortization	16,634	16,951	17,299	12,313	9,988
Add investment income	555	782	915	1,218	1,114
Total adjustments	(13,663)	(12,671)	(11,001)	(8,579)	(8,783)
Net revenues	$ 16,758	$ 14,829	$ 15,497	$ 16,977	$ 11,358
Annual debt service	$ 1,128	$ 1,127	$ 1,129	$ 1,126	$ 1,126
Debt service coverage					
Without available funds (required 1.00x)	14.86	13.16	13.73	15.08	10.09

1. Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rocky Reach project debt and loans of Consolidated System bond proceeds and other contractually defined amounts.

2. Adjustment made to subtract Power Purchaser payments for debt service associated with loans of Consolidate System bond proceeds.

CREATING COMMUNITY VALUE

DESCRIPTION OF MAJOR POWER PURCHASERS

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

PUGET SOUND ENERGY, INC.

Puget Energy, Inc. (Puget Energy) is an energy services holding company incorporated in the State of Washington in 1999. Substantially, all of its operations are conducted through its regulated subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy also has a wholly-owned non-regulated subsidiary, named Puget LNG, LLC (Puget LNG). Puget LNG, was formed on November 29, 2016, and has the sole purpose of owning, developing and financing the non-regulated activity of the Tacoma LNG facility. Puget Energy is owned through a holding company structure by Puget Holdings, LLC (Puget Holdings). Puget Holdings is owned by a consortium of long-term infrastructure investors including the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation, the Alberta Investment Management Corporation, Ontario Municipal Employee Retirement System and PGGM Vermogensbeheer B.V. All of Puget Energy's common stock is indirectly owned by Puget Holdings. Puget Energy and PSE are collectively referred to herein as "the Company." The Company's principal executive offices are located at 10885 NE 4th Street, Suite 1200, Bellevue, Washington 98004. Its telephone number is (425) 454-6363 and information can be found on the Company's internet web sites at: *www.pugetenergy.com* and *www.pse.com*.

Puget Energy is the direct parent company of PSE, the oldest and largest electric and natural gas utility headquartered in the state of Washington, primarily engaged in the business of electric transmission, distribution and generation and natural gas distribution. Puget Energy's business strategy is to generate stable earnings and cash flow by offering reliable electric and natural gas service in a cost-effective manner through PSE. Puget Energy does not have any employees and PSE had approximately 3,130 full time employees as of December 31, 2019.

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, 2019, PSE had approximately 1,174,000 electric customers, and approximately 847,000 natural gas customers.

ADDITIONAL INFORMATION

The company is a publicly traded company and provides periodic reports on its financial and operating condition with the U.S. Securities and Exchange Commission (the "SEC").

ALCOA CORPORATION

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

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

Aluminum, as an element, is abundant in Earth's crust, but a multi-step process is required to make aluminum metal. Aluminum metal is produced by refining alumina oxide from bauxite into alumina, which is then smelted into aluminum and can be cast and rolled into may shapes and forms. Aluminum is a commodity traded on the London Metal Exchange ("LME") and priced daily. Alumina, an intermediary product, is subject to market pricing against the Alumina Price Index ("API"). As a result, the price of both aluminum and alumina is subject to significant volatility and, therefore, influences the operating results of Alcoa.

Alcoa is a global company with 30 operating locations across 9 countries. Alcoa's operations consisted of three reportable segments for 2019: Bauxite, Alumina, and Aluminum. The Bauxite and Alumina segments primarily consist of a series of affiliated operating entities held in an unincorporated joint venture between Alcoa and an Australian company. The Aluminum segment consists of the company's aluminum smelting, casting and rolling businesses, along with the majority of the energy production business.

Separation Transaction

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

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

ADDITIONAL INFORMATION

Alcoa is a publicly traded company and is obligated to provide periodic reports on its financial and operating condition with the U.S. Securities and Exchange Commission (the "SEC").

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LIFE RING

CLOCKWISE FROM FAR LEFT: DOCK AT WALLA WALLA POINT PARK; FOREBAY AT ROCKY REACH DAM ON THE COLUMBIA RIVER; ANDREW YORK SWITCHYARD; CHELAN PUD'S BEEBE BRIDGE PARK ON THE COLUMBIA RIVER NEAR THE RESORT TOWN OF CHELAN, WASH. INSET: KOKANEE COLLECTED IN COMPANY CREEK NEAR STEHEKIN.


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

2019
Fast Facts

P.U.D.
CHELAN COUNTY

History
PUD created 1936
First service 1947

Average residential electric rate
(Cents/kWh) .... 3.2¢

Number of retail customers*
Electric 52,146
Water/sewer 6,797
Fiber end-users 17,493

District peak demand and date
459 MW .... Feb. 7

Service lines
Miles 1,872

Number of employees
Dec. 31, 2019 773

Power generation (MWh)
Rocky Reach .... 5.1 million
Rock Island .... 2.3 million
Lake Chelan .... 0.3 million

Generating units
Rocky Reach 11
Rock Island 18
Lake Chelan 2

Generator nameplate capacity (MW)
Rocky Reach 1,300
Rock Island 629
Lake Chelan 59

District revenue
Total .... $385.2 million

Returned to community
State & local taxes .. $9.7 million

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

*Dec. 31, 2019

CREATING COMMUNITY VALUE

Mission

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

Vision/ Challenge

In a rapidly changing utility environment, we will provide:
The Best Value for the Most People for the Longest Time.

Our Values

Safety

Protect public and employee health and safety

Stewardship

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

Trustworthiness

Competence, integrity, respect, collaboration

Operational Excellence

High-quality, innovative work execution through supporting personal accountability

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