2015

Annual Report

Public Utility District No. 1 of Chelan County

DELIVERING *on our commitment*

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

ABOUT US

Public Utility District No. 1 of Chelan County was created by a vote of the people in 1936 and delivered its first power in 1947. The PUD is governed by a locally elected five-member Board of Commissioners. The general manager uses the policies and guiding principles set by the commission to generate and deliver electricity from our three dams to utilities that serve customers across the Pacific Northwest as well as to more than 49,000 retail customers in the county and to provide water, sewer and wholesale telecommunications services.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Note: The statements and information on pages 1-6 of the 2015 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.

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Delivering on our Commitment

2015 Community Report

GOOD NEWS TO REPORT

Steve Wright

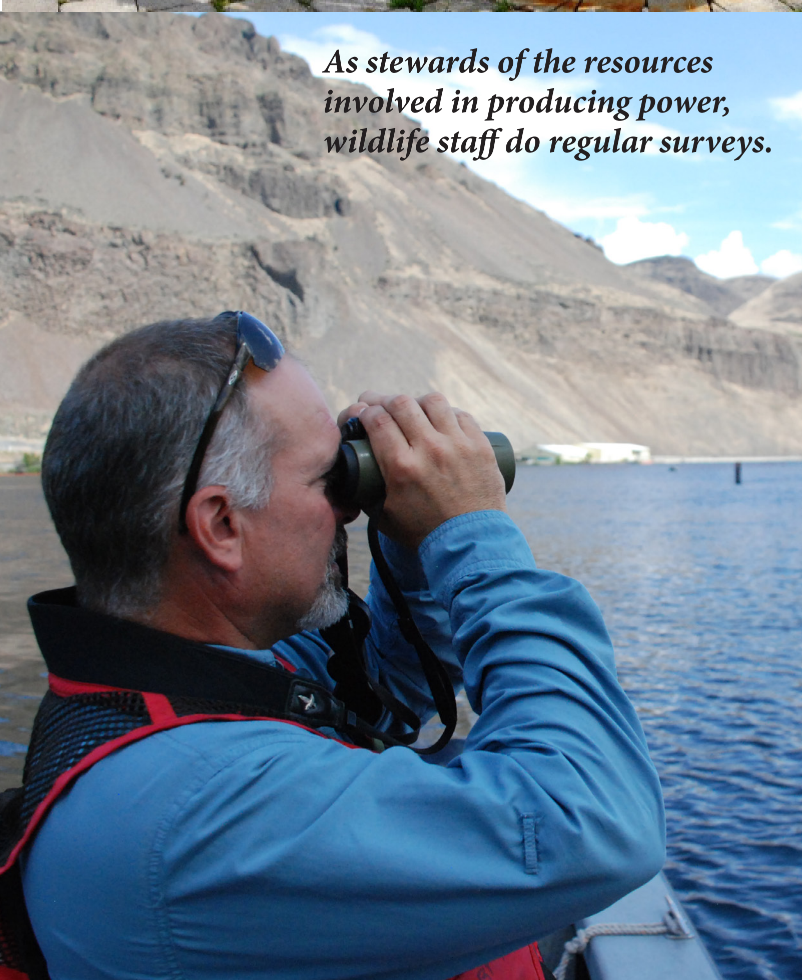
Chelan PUD exists to serve our customers. Recent survey results (details inside) confirm you agree with the focus on low rates, good customer service, great communications and reliable power service.

Keeping those marks high is a challenge we are happy to accept.

With your help, through strategic and business planning, Chelan PUD sets high goals. This community report shows how we are delivering on our commitment to customers.

2015 was a very good year for Chelan PUD. Financial results were exceptional. We paid off significant amounts of debt and are on track to get below a 35-percent debt ratio a year earlier than forecast. And, we are making significant investments in our infrastructure and our people in order to prepare this utility for the next 75 years.

Thank you for the tremendous vote of confidence in how your public utility district is being run.



As stewards of the resources involved in producing power, wildlife staff do regular surveys.

The Best for the Most for the Longest

Moving ahead on strategic objectives

At the one-year mark, priorities in the strategic plan adopted by Chelan PUD's Board of Commissioners are being met with significant investments in core value-producing assets and people, debt reduction of another $122 million and the launch of nearly a dozen Public Power Benefit projects.

Invest in core assets and people

Reduce debt

Initiate Public Power Benefit

At the same time, we're keeping our eye on issues that could have impacts on the plan while expanding the focus on preserving core assets, investing in cost-saving technologies, preparing for a future of lower wholesale electric market prices and maintaining reliable services and strong finances.

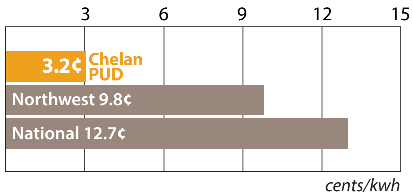
Working with you, we also established a Public Power Benefit program that could identify potential projects to improve the quality of life in our county. We accomplished all of this in collaboration with you, our customer-owners, and invite you to stay involved. Details at www.chelanpud.org under "About Us> Our Strategic Plan."

Chelan PUD | 2015 at a glance

Average residential rate per kilowatt hour in 2015

3.2¢

Chelan PUD's residential rate is among the lowest in the nation

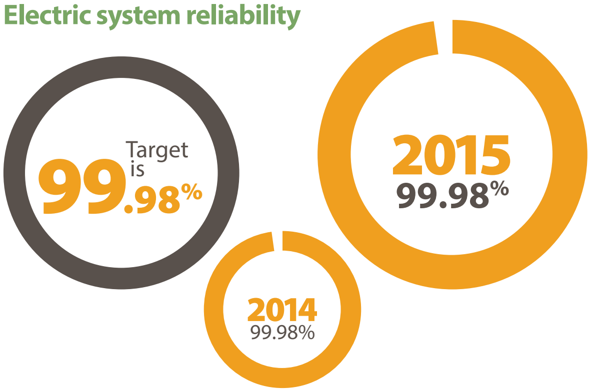


Bond ratings

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

As of Dec. 31, 2015

Electric system reliability



$7.3 million

Funds returned to the community in taxes

	2014	2015
State and local tax expense	$ 7,652,724	**$ 7,258,737**

Number of fiber end-user connections

13,346

49,702

Number of retail electric customers

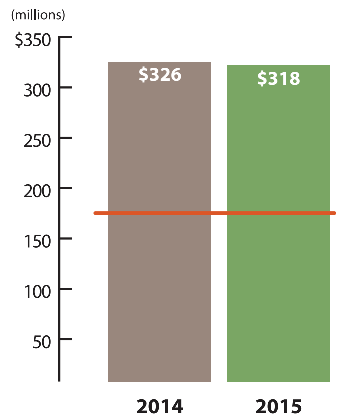
Number of water/wastewater customers

6,366

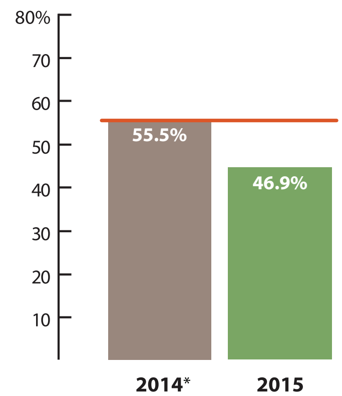
Four measurements of financial stability were developed as part of 2010 strategic planning and updated in May 2014 for the District's long-term sustainability. We achieved or exceeded all four in 2015.

Target

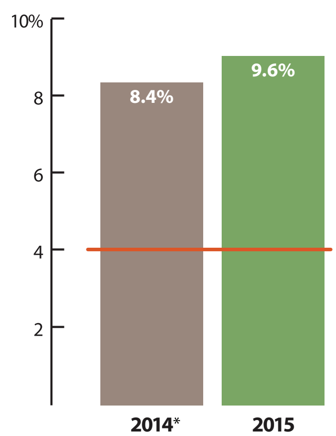
Financial liquidity
Target: Minimum of $175 million



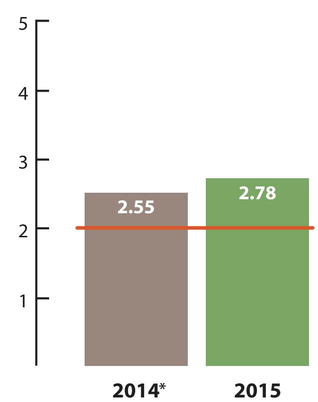
Debt ratio
Target: **Less** than 55 percent for 2015



Rate of return
Target: Greater than 4 percent



Debt service coverage
Target: Greater than 2.0



Financial liquidity represents cash reserves to cover risks and provide additional financial stability

Debt ratio reflects the percentage of utility assets financed by debt

Rate of return provides income to replace assets over time and meet obligations in unusual conditions

Debt service coverage demonstrates the ability to meet debt obligations even under unusual conditions

*As restated per accounting requirements

Chelan PUD | Delivering on our committment

CUSTOMER-OWNERS GIVE PUD HIGH MARKS FOR RELIABLE, AFFORDABLE SERVICE

In a satisfaction survey conducted in late February and early March 2016 Chelan PUD received high ratings from customer-owners for its low rates, good customer service, great communications and few or quickly fixed outages.

In the words of the research firm conducting the survey,
Chelan PUD enjoys an enviable relationship with its customers — Robinson Research found
"no evidence of any other electric utility with customer satisfaction surveys as favorable."

Here is what you told us in the recent customer satisfaction survey:

- **90%** satisfied/ very satisfied with PUD rates
- **93%** satisfied/ very satisfied with their PUD
- **95%** feel their power is restored in a reasonable amount of time if there is an outage
- **98%** satisfied/ very satisfied with their power reliability

A sample of what we heard from you:

"They provide cheap and dependable energy to our community. The PUD is always there with the power, and they contribute to the community with parks and other nonprofit services."

"We had a problem once and they came out and fixed it very quickly. It seems like they do a very good job."

"During the fires they got power back very quickly."

Survey conducted by Robinson Research of Spokane. See full report at chelanpud.org under "Events>April 4 Commission Meeting."

PUBLIC POWER BENEFIT PROJECTS LAUNCHED

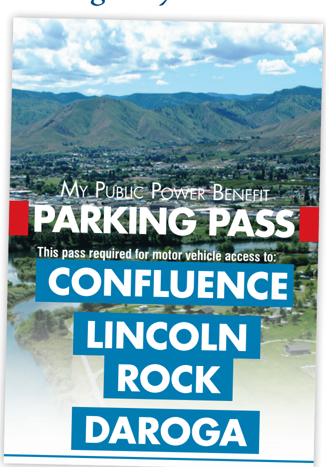
IMPROVING THE QUALITY OF LIFE IN CHELAN COUNTY

A strategic priority, the Public Power Benefit offers customer-owners the opportunity to envision ways to enhance the quality of life in Chelan County.

A thousand-plus ideas were submitted initially and reviewed by community members and PUD staff serving on six topic teams. Nearly a dozen projects were launched for 2015 and 2016.

Future projects will be considered as it's determined each year that funds are available.

Below: More than 1,500 passes were issued for Chelan County residents to enter PUD parks managed by the state.



Initial projects, in addition to reinvesting in core assets, aim to:

Parks & Recreation: Provide experiences and programs in Chelan PUD parks that provide lifelong play, discovery, creativity and learning.

Water & Wastewater: Ensure adequate resources to water, water quality, and wastewater infrastructure.

Fiber & Telecom: Build out the fiber system to more customers.

Electrification: Purchase electric vehicles and explore new opportunities for electrification research and equipment, where it makes sense.

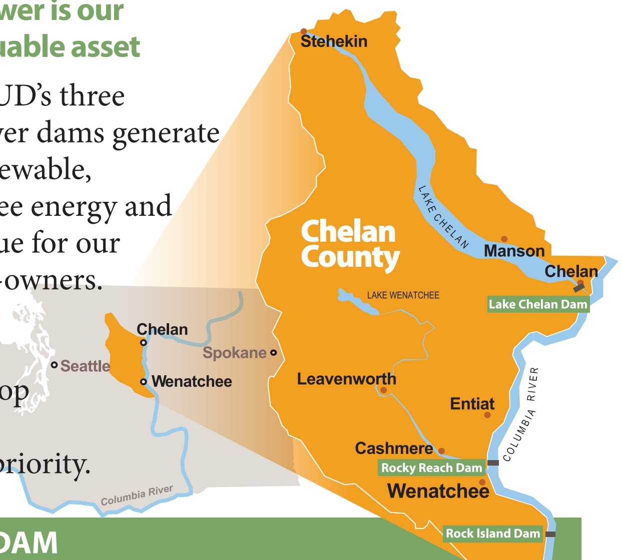
Economic Development: Take an active role in education opportunities and attracting new businesses through infrastructure that support Chelan County's vision for the future.

For details on projects in each category, visit **chelanpud.org >"About Us"> "Our Stategic Plan"**


2015 Apple Blossom royalty visit Rocky Reach.

Hydropower is our most valuable asset

Chelan PUD's three hydropower dams generate clean, renewable, carbon-free energy and create value for our customer-owners. Keeping those key assets in top shape is a strategic priority.

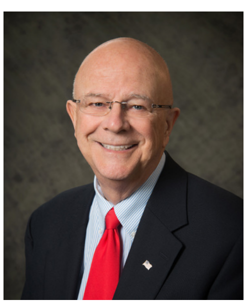


Local leadership means local control

Chelan PUD is governed by a locally elected five-member Board of Commissioners. They welcome comments at board meetings on the first and third Monday of each month and anytime at **contactus@chelanpud.org**.


Garry Arseneault

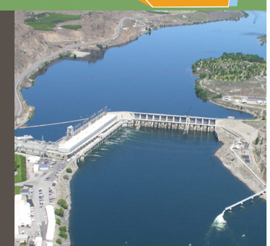

Carnan Bergren


Dennis Bolz


Ann Congdon


Randy Smith

ROCKY REACH DAM



1,300 megawatt capacity*
11 generators
6.0 million megawatt hours generated

Following intensive analysis, cost-effective repairs are under way on turbines in the four largest units to restore adjustable blade capability. Analysis also showed benefits to customers in replacing the insulated sections of copper that generate electricity in the large units at the same time as the turbine repairs. The PUD's federal license to operate the dam runs through 2052.

ROCK ISLAND DAM

629 megawatt capacity*
2 powerhouses
18 generators (plus a 1,000 kW plant unit)
2.8 million megawatt hours generated

Modernizing generating units in Powerhouse 1 continued and plans were approved for additional investments for turbine replacements and upgrades in line with strategic objectives. The PUD's federal license to operate the dam runs through 2028.

LAKE CHELAN DAM

59 megawatt capacity*
2 generators
0.4 million megawatt hours generated

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

*Generator nameplate capacity

pwc

Independent Auditor's Report

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, 2015 and December 31, 2014, 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.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District at December 31, 2015 and December 31, 2014, 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 97205-3344
T: (971) 544 4000, F: (971) 544 4100, www.pwc.com/us

Emphasis of a Matter

As discussed in Note 1 and 8 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, effective July 1, 2014. The financial statements as of and for the years ended December 31, 2015 and December 31, 2014 reflect the adoption of the provisions of GASB 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis on pages 11 through 18 and the required supplementary information, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of the District's Contributions and Schedule of Funding Progress for Postretirement Health Benefits Program on page 50, are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining schedule of revenues, expenses and changes in net position, of assets and deferred outflows of resources and liabilities, deferred inflows of resources and net position, and of cash flows on pages 51 through 55, as well as supplemental disclosures of telecommunication activities in Note 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 supplementary information referred to above is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

pwc

The supplementary information presented as continuing disclosure on pages 59 through 73 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

Portland, Oregon
April 20, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015 and 2014

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, 2015 and 2014. This discussion and analysis is designed to be used in conjunction with the financial statements, notes and other supplementary information, which follow this section.

FINANCIAL HIGHLIGHTS

- The District ended 2015 with a positive change in net assets of $102 million. These strong operating results were achieved while continuing to meet strategic priorities to invest in utility assets and employees, pay down debt and launch Public Power Benefit projects. The clean, renewable benefits of the hydropower the District generates and sells on the wholesale market helped support revenue. Those environmental attributes are an additional source of income even as wholesale market prices declined. Capital and operating expenses were lower than budgeted, adding to the overall positive bottom line. The District exceeded all financial targets in 2015.
- In 2015, work began on long-term repairs to restore the movable turbine blade capability and make other repairs expected to extend the life of the equipment at least another 30 years on four of the 11 generating units at Rocky Reach Dam. Following a holistic design review, overall project cost including new design, engineering and repairs was forecast at $50 million to $53 million over six years. These costs address a multitude of repair and enhancement opportunities identified through extensive engineering analysis and observation. There is insurance for portions of the damage and lost revenue, however the extent of coverage will not be known until each unit is disassembled one at a time. The power purchasers will pay about half of the remaining costs. The work is expected to generate $10 million to $90 million in incremental value to PUD customer-owners with the higher efficiency movable turbine blades coupled with the potential avoided long-term costs associated with impacts of a fixed blade alternative. One unit at a time will be taken out of service to make permanent repairs with the goal of having all four units with long-term repairs completed by 2020. In June 2015, the advertising of bids for the repair and rewinding of the same four large unit generators at Rocky Reach was authorized. Rewinding of the generators at the same time as the turbine repair outages was the most cost-effective alternative. The work began in the fall of 2015, with the first winding delivery expected in the summer of 2016. Estimated cost for rewinding the generators on all four units is expected to be between $28 million and $32 million. The repairs and the lost production time for these repairs are not expected to have an effect on District retail electric rates. The District has in place effective risk management plans, including the hedging program, real-time agreement, long-term contracts, insurance program and strong financial policies that have significantly reduced the impact to the District from events such as this.
- In February 2015, the District's revenue bond rating of Aa3 was reaffirmed by Moody's with a stable outlook. According to Moody's, the rating is supported by the District's highly competitive hydro generation, strong liquidity position, low retail rates and long-term contracts. Additionally, the outlook is supported by the District's targeted debt reduction plans, forecasted high liquidity, expected strong debt service coverage ratio and the District's continuation of strong risk management.
- In early April 2015, the District's next strategic plan was approved. The plan focuses on investing for the long-term in District assets and people, paying down debt and initiating a public power benefit program, while keeping rates low and stable. The plan targets paying down debt by more than $350 million through 2019, as well as meeting other financial targets. The strategic plan also lays out stewardship objectives for serving customer-owners and managing the core businesses. They are: commit to the highest level of customer-owner satisfaction; invest to create long-term value for customer-owners; protect and enhance natural resources impacted by operations; ensure financial stability; make continuous improvement in efficient, effective, compliant and risk-assessed operations;

enhance District staff skills; and focus on values in relationships with customers, stakeholders and each other.

- The District continued its aggressive debt repayment plan and repaid another $123 million in debt during 2015. Original plans were to pay off $65 million in variable-rate debt as part of the District's continuing focus on reducing debt. A review completed to prepare for the planned pay off of the variable-rate bonds showed the benefits in current market conditions of paying off $66 million in fixed-rate, taxable bonds instead. The difference in interest rates in the two types of bonds will provide the primary savings. In addition to the $66 million in accelerated principal payments made in April, scheduled principal payments were made in June and July to achieve the total net debt reduction goal in 2015 of $122 million to meet customer-owner expectations and District financial objectives. These payments included a final payment of an older, "senior" series of debt that eliminates a bond lien, simplifying the District's debt structure. These significant reductions also improve the District's ability to cover its debt and continue to meet the District's strategic plan financial goals of a debt ratio of less than 35 percent by 2019. Debt reduction is a top priority in the District's strategic planning for long-term financial stability.
- In August 2015, several devastating fires ignited by lightning strikes caused significant damage to transmission and distribution equipment in the Chelan, Manson and Chelan Falls areas. Damage also occurred to the District's fiber network system. Several District crews assisted by contract and mutual aid crews from other public utility districts worked quickly to make repairs and restore power as soon as it was safe. Crews were able to restore power to some meters in less than 72 hours. Other outages, especially those in steep and unstable terrain, took some time to repair.
- In October 2015, New York-based Fitch Ratings affirmed the District's revenue bond rating of AA+ with a "stable" outlook on all of the District's outstanding consolidated system revenue and refunding bonds and hydro electric project revenue bonds. The rating agency firm reported that the key factors leading to the rating included the District's "exceptionally" low-cost power resources, mitigation for wholesale market risks through its hedging program, strong financial performance and metrics, favorable debt reduction plan and ample unrestricted cash reserves.
- In December 2015, the moratorium on accepting applications for electric service to new large loads was modified and extended narrowing it to server farms and similar technology operations with intense energy use of 250 kilowatt hours (kWh) per square-foot or more per year, such as "bitcoin miners." This new and growing electric load uses power at a rate 10 to 100 times greater than typical Chelan County businesses. Commissioners set in motion steps toward proposing a new rate class for those users to cover the cost of service, keep District finances stable and protect value for all customer-owners. The moratorium does not affect normal load growth, such as requests to serve new subdivisions, stores, schools, medium-size fruit warehouses or manufacturing firms all of which typically use less than 1 average megawatt (aMW).
- After realizing a drawdown related to a fracture at Grant County PUD's Wanapum Dam in 2014 would impact fish passage and installing temporary extensions to fish ladders to ensure safe passage for fish migrating upstream later in the season when flows were lower, results confirmed that the modifications to Rock Island Dam's fish ladders allowed safe passage for upstream migrating adult salmon and steelhead. Record numbers of Chinook salmon were counted at Rock Island and Rocky Reach Dams in 2015. While the number of sockeye salmon was less than in 2014, the return was still above the 10-year average. After the reservoir situation stabilized in 2015 and fish passage and irrigation were not an issue, two of the three temporary extensions to fish ladders were removed in January 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

The District's total net position increased by $102 million in 2015, despite the operating challenges of significant damages caused by fires and Rocky Reach large unit repairs, demonstrating the effectiveness of risk management plans and strong financial policies. The increase is primarily due to continued strong operating results stemming from the District's hedging program, real-time agreement and long-term power sales contracts. The hedging program requires locking in predictable revenue through the sale of excess energy under both forward block transactions and slice contracts and is proving to be successful at providing rate stability and meeting financial goals. Other factors that contributed to the favorable results included expenses below budget combined with continued debt reduction that lowered interest expense.

Total net position increased by $32 million in 2014. Positive operating results driven by the District's hedging program, real-time agreement and long-term power sales contracts were partially offset by a $57 million reduction in net position for the cumulative effect of implementing GASB 68, "Accounting and Financial Reporting for Pensions — An Amendment of GASB Statement No. 27."

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2015 and 2014

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

CONDENSED COMPARATIVE FINANCIAL INFORMATION

(amounts in millions)	2015	2014*	2013	Increase (Decrease) 2015 – 2014
Current assets	$ 86	$ 166	$ 199	$ (80)
Net utility plant	1,062	1,067	1,073	(5)
Other non-current assets	430	374	317	56
Deferred outflows of resources	15	14	14	1
Total assets and deferred outflows of resources	1,593	1,621	1,603	(28)
Current liabilities	105	138	151	(33)
Long-term debt	584	673	732	(89)
Other liabilities	174	170	135	4
Total liabilities	863	981	1,018	(118)
Deferred inflows of resources	38	50	27	(12)
Invested in capital assets, net of related debt	451	336	264	115
Restricted	162	155	142	7
Unrestricted	79	99	152	(20)
Total net position	$ 692	$ 590	$ 558	$ 102

(amounts in millions)	2015	2014*	2013	Increase (Decrease) 2015 – 2014
Operating revenues	$ 370	$ 400	$ 362	$ (30)
Less				
Operating expenses	236	282	229	(46)
Other (income) and expenses	37	34	44	3
Net income before capital contributions	97	84	89	13
Capital contributions	5	5	3	-
Change in net position	102	89	92	13
Total net position – beginning of year	590	558	466	32
Cumulative effect of change in accounting principle*	-	(57)	-	57
Beginning of year, as adjusted	590	501	466	89
Total net position – end of year	$ 692	$ 590	$ 558	$ 102

**The District's 2014 Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position were updated for the impacts of the required retroactive implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27," which became effective for the District in 2015.*

ASSETS

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

Current assets decreased by $33 million in 2014, as well, primarily due to the District's aggressive debt repayment program partially offset by the District's positive operating results. While short-term cash and investment balances were down, contributing to the decrease in current assets, this was offset by the increase in long-term investments that is reflected in the increase in other non-current assets. The District is holding longer term investments as a result of changes in investment strategies to optimize returns.

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

As of December 31, 2014, the District had approximately $1.1 billion invested in a variety of capital assets (see Note 3.) Net utility plant decreased $6 million in 2014. Additional investments in utility plant assets, including significant additions related to hydro fisheries and hatchery projects and hydro modernization projects at Rocky Reach and Rock Island, were more than offset by annual depreciation.

Other noncurrent assets, which includes noncurrent restricted assets and other assets, increased $56 million and $57 million in 2015 and 2014, respectively, primarily as a result of an increase in restricted cash and investment balances resulting from positive operating results and continued accumulation of capital recovery and debt repayment funds under the District's long-term power sales contracts. Capital recovery and debt repayment funds will be used for future capital investment and debt repayment at the District's hydro projects.

Deferred outflows of resources increased $1 million in 2015 and remained flat in 2014. The increase in 2015 was primarily due to the implementation of GASB 68 and accordingly reporting the District's proportionate share of the Public Employees' Retirement System (PERS) 2 and 3 collective deferred outflows of resources. The increase related to pensions was partially offset by the monthly amortization of losses on refunding debt.

LIABILITIES

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

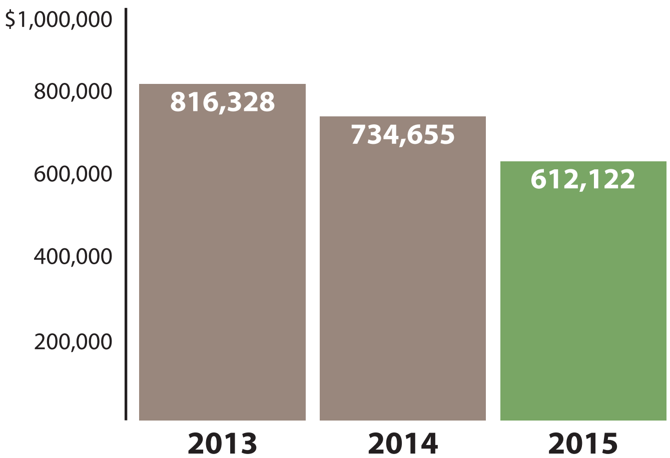
Current liabilities decreased $13 million in 2014, primarily as a result of a decrease in the current portion of long-term obligations offset somewhat by an increase in accounts payable. The decrease in the current portion of long-term obligations is due primarily to changes in regularly scheduled repayments of bond principal on existing debt compared to the prior year. Accounts payable increased primarily due to a combination of increased balances for secondary power purchases needed to balance load and resource positions and collateral collected and being held in relation to forward sales with various counterparties.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2015 and 2014

TOTAL DEBT OUTSTANDING

(amounts in thousands)



Total debt outstanding decreased by $123 million during 2015 due to scheduled maturities of debt combined with an additional $66 million in accelerated principal payments. Debt outstanding decreased by $82 million in 2014 due to scheduled maturities. These reductions in total debt contributed to the $89 million and $59 million reduction in long-term debt in 2015 and 2014, respectively, which is net of premiums, discounts and the current portion of the obligations. The District did not refinance or issue additional bonds in 2015 or 2014.

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

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

Other liabilities increased by $35 million in 2014, primarily as a result of implementation of GASB 68. The increase related to GASB 68 was partially offset by the normal amortization of unearned revenue related to the District's long-term power sales agreements.

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

On the other hand, deferred inflows of resources increased $23 million in 2014 due to a combination of increases in collective deferred inflows for the PERS plans as provided by the Department of Retirement Systems, the fair market value of the District's forward purchase agreement and increases in the fair value of investments compared to the prior year.

NET POSITION

Invested in capital assets, net of related debt, increased $115 million and $72 million in 2015 and 2014, respectively. The increase in 2015 reflects a reduction in debt primarily as a result of regularly scheduled repayments of bond principal, as well as $66 million in accelerated principal payments on existing debt. The increase in 2014 reflects a reduction in debt primarily as a result of regularly scheduled repayments of bond principal on existing debt combined with a scheduled $29 million maturity of 5-year notes.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements. Restricted net position increased $7 million and $13 million in 2015 and 2014, respectively, primarily due to the accumulation of funds under long-term power sales contracts that are restricted for construction and debt reduction purposes.

Unrestricted net position is not restricted for the purpose of debt covenants or other legal requirements and can be used to finance the day-to-day operations of the District. In 2015, unrestricted net position decreased $20 million due to having been deployed primarily for debt reduction and investment in capital assets. In 2014, unrestricted net position also decreased approximately $53 million due primarily to the required retroactive implementation of GASB Statement No. 68 combined with the retention of a portion of the District's positive earnings as restricted assets or invested in capital assets being deployed primarily for debt reduction and investment in capital assets.

REVENUES AND EXPENSES

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

Purchased power costs decreased $48 million in 2015 compared to 2014 due to a change in the method of reporting "booked-out" wholesale energy sales and purchases from gross to net during 2015. In 2014, wholesale sales and purchased power expense included $30 million of "booked-out" energy transactions. The impact to the District's change in net position is the same under both the gross and net approach of reporting these transactions.

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

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

In 2014, wholesale sales increased $33 million compared to 2013 due to increased block sales resulting from further implementation of the District's power hedging strategy. The program is designed to reduce wholesale revenue uncertainty and provide more rate stability and certainty for District programs.

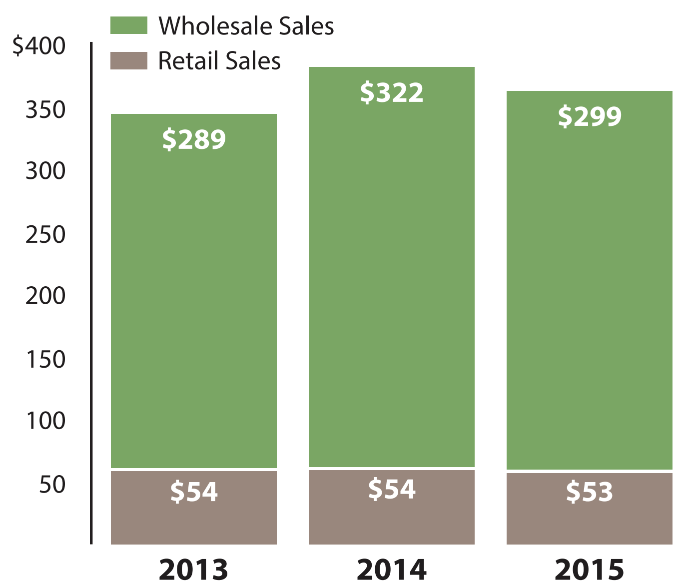
Purchased power costs increased $41 million in 2014 compared to 2013 primarily due to further implementation of the District's power hedging strategy and balancing system loads and resources with increased challenges due to turbine repairs and the Wanapum reservoir drawdown.

Other income and expenses, which included net interest expense and income, decreased by $10 million, primarily as a result of decreased interest on long-term debt due to reduced debt balances combined with decreased loss on disposition of property. The prior year balance was made up primarily of losses on the early retirement of debt and impairment losses on the Rocky Reach and Rock Island attraction water turbines. There were no comparable losses in 2014.

Net income before capital contributions decreased by $5 million in 2014 compared to 2013 primarily due to a decrease in generation due to lower water conditions compared to 2013 and increased purchased power costs mentioned above. Capital contributions increased slightly from 2013 to 2014.

WHOLESALE/RETAIL REVENUES

(amounts in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

December 31, 2015 and 2014

OTHER SIGNIFICANT MATTERS

In November 2015, the District learned about the impending decision by Alcoa to idle the Wenatchee Works plant. In 2007, when the current contract with Alcoa was crafted, several provisions were included as incentives for Alcoa to remain in Wenatchee and keep operating, with increased financial benefits for more production and full-employment for plant workers. Keeping well-paid industrial jobs in the community was a high priority for the District commission at the time and remained paramount as news of the shutdown became known. The plant was idled in December 2015. Under terms of the power sales agreement, Alcoa 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's behalf. After a 90 day threshold of being curtailed, the proceeds from the sale of any unused power is first applied to Alcoa's monthly contractual costs. Any surplus proceeds in excess of Alcoa's costs will be retained by the District and any shortfalls will be paid by Alcoa. The Alcoa shutdown is not expected to adversely impact the District's 2016 finances.

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, 2015 and 2014

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

(amounts in thousands)	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 21,333	$ 55,086
Investments	14,348	56,475
Accounts receivable, net	27,801	26,112
Accrued interest receivable	1,082	1,244
Materials and supplies	13,128	11,798
Prepayments and other	1,203	1,244
Current portion of regulatory assets	2,978	2,978
	81,873	154,937
RESTRICTED ASSETS - CURRENT		
Cash and cash equivalents	2,717	5,439
Investments	1,826	5,574
	4,543	11,013
TOTAL CURRENT ASSETS	86,416	165,950
UTILITY PLANT		
In service, at original cost	1,944,395	1,921,034
Construction work in progress	31,516	25,551
Less-accumulated depreciation	(914,304)	(879,984)
	1,061,607	1,066,601
RESTRICTED ASSETS - NONCURRENT		
Cash and cash equivalents	10,392	20,963
Investments	166,790	139,499
	177,182	160,462
OTHER ASSETS		
Long-term receivables, net	960	1,555
Long-term investments	200,491	157,503
Regulatory assets, net	41,773	43,786
Derivative instrument asset	6,128	6,861
Other	3,784	3,935
	253,136	213,640
TOTAL ASSETS	1,578,341	1,606,653
DEFERRED OUTFLOWS OF RESOURCES		
Losses on refunding debt	8,502	11,475
Pensions	6,367	2,724
	14,869	14,199
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,593,210	$ 1,620,852

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

(amounts in thousands)	2015	2014
CURRENT LIABILITIES		
Current portion of long-term obligations	$ 36,958	$ 73,195
Current portion of unearned wholesale power sales	7,722	8,166
Accounts payable	35,719	30,608
Accrued taxes	3,716	4,435
Accrued interest	7,645	9,772
Accrued vacation and other	13,311	12,533
	105,071	138,709
LONG-TERM DEBT		
Revenue bonds and notes payable, less current portion	583,916	672,798
OTHER LIABILITIES		
Unearned wholesale power sales revenue, less current portion	94,938	101,603
Net pension liability	51,814	40,926
Long-term contract customer deposit	18,500	18,500
Licensing obligation, less current portion	8,545	8,096
Other liabilities	700	537
	174,497	169,662
TOTAL LIABILITIES	863,484	981,169
DEFERRED INFLOWS OF RESOURCES		
Derivatives	6,128	6,861
Pensions	7,930	17,851
Regulatory liabilities	23,573	24,898
	37,631	49,610
COMMITMENTS AND CONTINGENCIES (see Note 12)		
NET POSITION		
Invested in capital assets, net of related debt	450,863	336,002
Restricted	162,379	155,012
Unrestricted	78,853	99,059
	692,095	590,073
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,593,210	$ 1,620,852

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

December 31, 2015 and 2014

(amounts in thousands)	2015	2014
OPERATING REVENUES		
Retail sales	$ 53,055	$ 53,846
Wholesale sales	299,089	321,691
Other operating revenues	18,343	24,851
	370,487	400,388
OPERATING EXPENSES		
Purchased power and water	49,276	97,636
Generation	78,951	77,030
Utility services	42,334	39,653
Taxes	7,260	7,654
Depreciation and amortization	47,310	48,408
Other operation and maintenance	11,057	11,464
	236,188	281,845
OPERATING INCOME	134,299	118,543
OTHER INCOME (EXPENSE)		
Interest on long-term debt	(30,479)	(35,117)
Amortization of deferred debt costs	(977)	(1,532)
Investment income	5,685	4,545
Federal subsidy income	586	584
Other	(11,727)	(2,572)
	(36,912)	(34,092)
INCOME BEFORE CAPITAL CONTRIBUTIONS	97,387	84,451
CAPITAL CONTRIBUTIONS	4,635	4,626
CHANGE IN NET POSITION	102,022	89,077
TOTAL NET POSITION		
Beginning of year	590,073	557,990
Cumulative effect of change in accounting principle	-	(56,994)
Beginning of year, as adjusted	590,073	500,996
TOTAL NET POSITION		
End of year	$ 692,095	$ 590,073

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

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

(amounts in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 363,559	$ 389,817
Payments to suppliers	(114,435)	(147,926)
Payments to employees	(77,308)	(76,777)
Insurance proceeds	-	1,739
Net cash provided by operating activities	171,816	166,853
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to plant	(38,606)	(38,414)
Proceeds from sale of plant	459	1,391
Principal paid on debt	(136,059)	(95,662)
Interest paid on debt	(19,089)	(22,788)
Capital contributions	3,467	3,700
Other	(7,690)	(1,419)
Net cash used in capital and related financing activities	(197,518)	(153,192)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(195,872)	(190,723)
Proceeds from sales and maturities of investments	170,602	212,083
Interest on investments	6,218	5,212
Long-term receivables	396	191
Other, net	(2,688)	(2,531)
Net cash (used in) provided by investing activities	(21,344)	24,232
NET CASH (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	(47,046)	37,893
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	81,488	43,595
CASH & CASH EQUIVALENTS, END OF YEAR	$ 34,442	$ 81,488
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 134,299	$ 118,543
Depreciation and amortization	47,310	48,408
(Increase) decrease in operating assets:		
Accounts receivable, net	(1,490)	(4,577)
Materials and supplies	(1,330)	(1,177)
Prepayments	41	159
Other	(269)	112
Deferred outflows of resources	(3,641)	(148)
Increase (decrease) in operating liabilities:		
Accounts payable	718	10,846
Accrued taxes	(719)	(388)
Accrued vacation and other	778	344
Unearned wholesale revenue	(7,409)	(6,687)
Customer deposits	2,560	2,209
Net pension liability	10,887	(18,641)
Deferred inflows of resources	(9,919)	17,850
Net cash provided by operating activities	$ 171,816	$ 166,853
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Construction costs included in accounts payable	$ 4,393	$ 3,074
Capital contributions	527	570
Amortization of regulatory assets	(854)	(635)

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

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NOTES TO BASIC FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

NOTE 1: SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY AND OPERATIONS OF THE DISTRICT

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

ACCOUNTING POLICIES

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

During 2015, GASB issued Statement No. 72, "Fair Value Measurement and Application," Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68," Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," Statement No. 77, "Tax Abatement Disclosures," Statement No. 78, "Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans" and Statement No. 79, "Certain External Investment Pools and Pool Participants." These Statements are all effective for fiscal years beginning after 2015. The District is still evaluating these Statements but does not expect implementation of them to have a material impact to the District's financial results.

In June 2015, GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" and Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions." The primary objective of these statements is to improve both the usefulness of information about postemployment benefits other than pensions (OPEB) included in the external financial reports of state and local OPEB plans and the accounting and financial reporting by state and local governments for OPEB. The statements replace Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans" and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." These statements establish standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit OPEB, these statements identify the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined OPEB are also addressed. Statements No. 74 and No. 75 are effective for fiscal years 2017 and 2018, respectively. The District is currently evaluating the financial statement impact of adopting these statements.

CHANGE IN ACCOUNTING PRINCIPLE - PENSIONS

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27." The primary objective of Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. This statement establishes standards for measuring and recognizing liabilities, deferred outflows and deferred inflows of resources and expenses. For defined benefit pension plans, this statement identifies

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information about pensions are also addressed. This statement, as well as GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68," was effective for the District beginning in fiscal year 2015.

The District's 2014 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position were restated for the impacts of the required retroactive implementation of GASB Statement No. 68. Prior to implementation of this statement, employers participating in a cost-sharing pension plan recognized annual pension expense substantially equal to their contractually required contributions to the plan. Upon the adoption of GASB Statement No. 68, employers must recognize their proportionate share of the plans' collective net pension liability, pension expense and deferred inflows of resources and deferred outflows of resources. Implementation of Statement No. 68 had no impact on the District's cash flows.

The impacts of restating the District's 2014 financial statements are presented in the following tables:

IMPACTS TO THE DISTRICT'S STATEMENT OF NET POSITION

(amounts in thousands)	Restated 2014 Balance	2014 Balance as Previously Reported
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - pensions	$ 2,724	$ -
Total deferred outflows of resources	14,199	11,475
LIABILITIES		
Net pension liability	$ 40,926	$ -
Total liabilities	981,169	940,243
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow - pensions	$ 17,851	$ -
Total deferred inflows of resources	49,610	31,759
NET POSITION	$ 590,073	$ 646,126

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

(amounts in thousands)	Restated 2014 Balance	2014 Balance as Previously Reported
OPERATING EXPENSES		
Generation	$ 77,030	$ 77,567
Utility services	39,653	40,055
Total operating expenses	281,845	282,784
CHANGE IN NET POSITION	$ 89,077	$ 88,136

CHANGE IN ACCOUNTING PRINCIPLE – ENVIRONMENTAL ATTRIBUTE REVENUE

During 2015, the District changed its method of accounting for environmental attributes (non-power attributes) that are bundled with the associated energy and sold under a single contract. Beginning in 2015, bundled environmental attributes are reported as "Wholesale Sales" on the Statement of Revenues, Expense and Changes in Net Position. Prior to the change, the District reported the revenue associated with these bundled environmental attributes as "Other Operating Revenues." Management believes the change in accounting method better represents the value received from the sale of the energy under these bundled contracts and supports flexibility in the structuring of bundled transactions. In addition, classifying these transactions as "Wholesale Sales" conforms to the predominant method used in the utility industry. The change in method has no impact on the District's cash flows or change in net position. Revenues associated with environmental attributes that are bifurcated from the energy and sold as separately traded instruments will continue to be reported as "Other Operating Revenues."

In accordance with Generally Accepted Accounting Principles, the change has not been applied retrospectively to the District's 2014 financial statements. As a result, the current period's Statement of Revenues, Expenses and Change in Net Position is not comparable to the prior period as presented. The following shows the impact a retrospective change would have had on the prior period Statement of Revenues, Expenses and Change in Net Position:

(amounts in thousands)	2014 As Presented	2014 New Method
Operating Revenues		
Wholesale sales	$ 321,691	$ 325,491
Other Operating Revenues	24,851	21,051
Total Operating Revenues	$ 400,388	$ 400,388

CHANGE IN ACCOUNTING PRINCIPLE – WHOLESALE SALES

During 2015, the District changed its method of accounting for "booked-out" wholesale energy sales and purchases (agreement with the counterparty to net settle before scheduling for delivery) from gross to net. Management believes the net approach results in a better representation of the District's wholesale activity. In addition, the net approach conforms to the predominant method used in the utility industry. The change in method has no impact on the District's cash flows or change in net position. Wholesale sales and purchases that are scheduled for physical delivery continue to be accounted for on the gross basis.

In accordance with Generally Accepted Accounting Principles, the change has not been applied retrospectively to the District's 2014 financial statements. As a result, the current period's Statement of Revenues, Expenses and Changes in Net Position is not comparable to the prior period as presented. The following shows the impact a retrospective change would have had on the prior period Statement of Revenues, Expenses and Change in Net Position:

(amounts in thousands)	2014 As Presented	2014 New Method
OPERATING REVENUES		
Wholesale sales	$ 321,691	$ 291,691
Total Operating Revenues	400,388	370,388
OPERATING EXPENSES		
Purchased power and water	$ 97,636	$ 67,636
Total Operating Expenses	282,784	252,784
OPERATING INCOME	$ 117,604	$ 117,604

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 earned and are comprised of sales of wholesale power, sales of electric, water, wastewater and wholesale telecommunication services and sales of environmental attributes. The accompanying financial statements include estimated unbilled revenues for energy and wholesale telecommunication services delivered to customers between the last billing date and the end of the year. Estimated unbilled revenues amounted to $2.5 million in 2015 and $2.5 million in 2014. 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-and-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, starting in 2011 and 2012, respectively, when the prior power sales contracts expired. 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 has been deferred and is being recognized as revenue over the term of the new contract.

In July 2008, the District entered into a 17-year power sales contract with Alcoa for output equivalent to 26% of the Rocky Reach and Rock Island projects, starting in 2011 and 2012, respectively, when the prior power sales contracts expired. Alcoa 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 has been deferred and will be recognized as revenue over the term of the new contract. The balance of the capacity reservation charge will be deferred as long as the plant continues to operate and waived if the plant continues to operate under the terms of the contract for the entire contract term.

In December 2015, Alcoa curtailed its Wenatchee Works smelting facility. Under terms of the power sales agreement, Alcoa 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's behalf. After a 90-day threshold of being curtailed, the proceeds from the sale of any unused power would first be applied to Alcoa's monthly contractual costs. Any surplus proceeds in excess of Alcoa's costs would be retained by the District and any shortfalls would be paid by Alcoa. Alcoa continues to have contractual rights to the 26% share of project output even while Wenatchee Works is idle.

There are two contractual charges that may apply in the event of a shutdown lasting longer than 90 days. The first charge is the "Initial Shutdown Amount," which could be as high as $8.6 million if the plant is idle for one year. The second charge is the "Shutdown Settlement Amount," which is the $67 million deferred capacity reservation charge that becomes due in the event the Wenatchee Works facility remains shutdown for longer than 18 months measured from the December 2015 curtailment.

The District's share of power produced by the Rocky Reach and Rock Island Systems is sold to the retail electric distribution system on a cost-plus basis. Power produced by the Lake Chelan System is sold to the retail electric distribution system at cost. As of December 31, 2015, the Rocky Reach, Lake Chelan and Rock Island Systems sell 49%, 100% and 49%, respectively, of their output to the retail electric distribution system, which is in turn sold to retail customers, firm power purchasers or sold on the wholesale market if in excess of the District's retail load.

Revenues and purchased power expenses related to "booked-out" wholesale energy sales and purchases (agreement with counterparty to net settle before scheduling for delivery) are reported net in the Statement of Revenues, Expenses and Changes in Net Position as a component of Wholesale Sales. For the year ended December 31, 2015, booked-out energy transactions amounted to $48.4 million.

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, 2015, the District had four significant customers (greater than 10% of operating revenues), collectively comprising total revenue of $210 million. The District had four significant customers for the year ended December 31, 2014, collectively comprising total revenue of $218 million.

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

Under the American Recovery and Reinvestment Act of 2009, the District issued taxable Build America Bonds (BABs) to finance capital projects that otherwise could be financed with tax-exempt bonds. The District receives periodic subsidy payments from the federal government which were equal to 35% of the interest paid on the BABs through 2012. During 2013, the United States Congress made changes to the subsidy program which resulted in a reduction of the total annual subsidy to approximately 32% of the interest paid. In 2015 and 2014, the District recognized non-operating revenues of $586,000 and $585,000, respectively.

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

REGULATORY DEFERRALS

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

POWER MARKETING

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

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

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

All of the District's forward power contracts are derivative instruments. All forward power contracts in place during 2014 and 2015 are classified as normal purchases and sales under GASB Statement No. 53 and as such, are excluded from fair value reporting requirements. All forward power contracts are recognized over the duration of the contracts as a component of Operating Revenues and Purchased Power Operating Expenses in the Statement of Revenues, Expenses and Changes in Net Position.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE

A reserve is established for uncollectible accounts receivable based upon actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for uncollectible accounts was $111,000 and $106,000 at December 31, 2015 and 2014, 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, and fiber-optic cable and fiber-related supplies, and are valued at average cost.

COMPENSATED ABSENCES

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

UTILITY PLANT

Utility plant is stated at original cost, which includes both direct and indirect costs of construction or acquisition, including an allowance for funds used during construction (AFUDC) for major non-hydro system projects. The District charges the cost of repairs and minor renewals to maintenance expense and the cost of renewals and replacement of property units that meet the District's capitalization threshold to utility plant. The cost, less net salvage, of property units retired is charged to accumulated depreciation. The District's capitalization threshold is $5,000. As the District constructs various major projects, costs accumulate in construction work in progress and are capitalized to utility plant after the projects have been completed and placed into service.

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

PENSIONS

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

SUBSEQUENT EVENTS

The District has evaluated all subsequent events through April 20, 2016, the issue date of this report, to ensure that these financial statements include appropriate disclosure of events both recognized in the financial statements as of December 31, 2015 and events which occurred subsequent to December 31, 2015 but were not recognized in the financial statements.

NOTE 2: CASH AND INVESTMENTS

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

Cash and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third party contractual agreements. Accounts that are allocated by resolution of the Commissioners are considered to be board designated accounts. Board designated accounts are a component of unrestricted assets as their use may be redirected at any time by approval of the Commissioners. Generally, when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first as appropriate, then unrestricted resources as they are needed.

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

(amounts in thousands)	2015	2014
Unrestricted assets		
Unrestricted	$ 71,619	$ 85,816
Board designated	164,553	183,248
Total unrestricted assets	236,172	269,064
Restricted assets	181,725	171,475
	$ 417,897	$ 440,539

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

As of December 31, 2015 and 2014, the District had the following cash and investments:

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

(amounts in thousands) Investment Type	Fair Value 2014	Investment Maturities (in Years) Less than 1	1 - 2	2 – 3	More than 3
U.S. Treasuries	$ 209,076	$ 49,230	$ 978	$ 24,906	$ 133,962
U.S. Agency Notes	53,034	23,919	-	-	29,115
Commercial Paper	12,986	12,986	-	-	-
Municipal Bonds	83,955	16,420	24,701	10,915	31,919
Cash Deposits	81,488	81,488	-	-	-
	$ 440,539	$ 184,043	$ 25,679	$ 35,821	$ 194,996

U.S. Treasury bills, 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. U.S. Treasury bills, notes or bonds, U.S. Government agency securities and municipal bonds that had a remaining maturity at the time of purchase of one year or less are recorded at amortized cost, which approximates fair value.

The fair value of investments is based on quoted market prices for those investments. It is generally the District's policy to hold investments to maturity.

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.

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 5% 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 State Investment Pool, 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; 10) mutual funds having received one of the four highest credit ratings of a nationally recognized rating agency, and money market funds as authorized under the laws of the State of Washington, limited to 10% of the qualifying portfolio; 11) notes, bonds or debentures that are insured or guaranteed by an agency of the federal government limited to no more than 30% of the qualifying portfolio and no more than 10% of the total assets invested with a single issuer; 12) and any other investment permitted under the laws of the State of Washington.

As of December 31, 2015 and 2014, investments in debt securities had credit quality ratings as follows:

Investment Rating (S&P) (amounts in thousands)	2015	2014
Long Term		
AAA	$ 4,172	$ 12,869
AA+	132,314	30,406
AA	11,257	33,215
AA-	43,229	7,466
Short Term		
A-1+	-	12,987
	$ 190,972	$ 96,943

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 commercial paper or state or local government bonds are limited to no more than 5% of the District's total investment portfolio; bankers' acceptances are limited to no more than $5 million by institution. The aggregate amount of savings, demand deposits and certificates of deposit are limited to 75% of portfolio and 20% per institution.

As of December 31, 2015 and 2014, 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 2015	2014
Federal Home Loan Bank	AA+	12%	8%
Federal National Mortgage Association	AA+	8%	4%

DERIVATIVE INSTRUMENTS – FORWARD PURCHASE AGREEMENTS

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, 2015, are provided below.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

FORWARD PURCHASE AGREEMENTS

Counterparty	Credit Rating by Moody's/S&P/Fitch	Guaranteed Yield	Notional Amount	Effective Date	Maturity	12/31/15 Fair Value	12/31/14 Fair Value
Wells Fargo Bank, N.A.	Aa2/AA-/AA	6.63%	$ 18,820,179	12/21/1999	6/1/2029	$ 6,128,000	$ 6,861,000

As of December 31, 2015 and 2014, the agreement is considered a hedging derivative instrument, and the fair value is recorded on the Statement of Net Position as a derivative asset and a Deferred Inflow of Resources in the same amount.

Fair value. Due to declining interest rates, the forward purchase agreement had a positive fair value to the District as of December 31, 2015 and 2014. 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 par value method.

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 table above.

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, 2015 and 2014 is as follows:

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

(amounts in thousands)	January 1, 2014	Additions	Reductions and Transfers	December 31, 2014	Depreciation Expense
Hydroelectric generation	$ 1,200,237	$ 8,715	$ (1,707)	$ 1,207,245	$ 26,958
Transmission	145,569	2,545	(487)	147,627	2,882
Distribution	222,503	7,276	(1,412)	228,367	6,052
General plant	124,934	6,961	(2,088)	129,807	4,553
Intangible	34,456	5,253	-	39,709	769
Telecommunications	88,868	1,943	(735)	90,076	5,597
Water/ Wastewater	77,182	1,090	(69)	78,203	1,597
	1,893,749	33,783	(6,498)	1,921,034	$ 48,408
Construction work in progress	17,301	40,678	(32,428)	25,551	
Accumulated depreciation	(837,788)	(48,398)	6,202	(879,984)	
	$ 1,073,262	$ 26,063	$ (32,724)	$ 1,066,601	

Plant assets include land of $71.6 million and $71.6 million as of December 31, 2015 and 2014, respectively.

In September 2013, three additional large generating units at Rocky Reach Dam were taken out of service after discovering that a large turbine out of service since March 2013 for investigative repairs had a deep crack in a stainless steel rod. District officials were concerned about the integrity of all four units, which have the same design elements. Out of concern for the health and safety of District employees, the public and the environment, it was decided to keep all four units out of service for further investigation. Temporary repairs were made to all four units, with the last of the four large units being returned to service in April 2014. Additional unit outages for permanent repairs are scheduled to occur one unit at a time through 2020. The seven additional generating units at Rocky Reach do not have a similar design and will continue to operate.

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

During 2014, the District received $1,139,000 and $600,000 under the mechanical breakdown and business interruption policies, respectively. Included in 2014 "Other operating revenues" is $961,000 for mechanical breakdown claims related to repairs expense incurred in 2013 and lost revenues related to business interruption as a result of outages of the first unit. Mechanical breakdown claims received in the amount of $778,000 were recorded to operating expense under "Other operation and maintenance" in order to offset the covered repairs expense incurred during 2014.

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

NOTE 4: LICENSING

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

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

The license for the Lake Chelan Project is based on a settlement agreement submitted to FERC in October 2003, between the District and stakeholders, including local communities, state and federal agencies, tribes and environmental groups. The license requires implementation of detailed management plans for fish, operations, wildlife, shoreline erosion, water quality, cultural and recreation resources over the life of the license. In addition, the Lake Chelan Project settlement agreement and license contains some measures that will be carried out by various agencies using funds provided by the District. The present value of these accrued funding obligations was estimated to be $10.0 million and $10.5 million as of December 31, 2015 and 2014, respectively. The estimate for these funding obligations may increase by measures that are deferred to later years due to inflationary adjustments and may be reduced by measures that are completed.

A summary of accrued licensing obligations, accounted for as intangible assets, for the years ended December 31, 2015 and 2014 is as follows:

(amounts in thousands)		2015		2014
Licensing obligation - beginning of year	$	10,485	$	9,902
Additions		-		791
Reductions		(521)		(208)
Licensing obligation - end of year	$	9,964	$	10,485

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

NOTE 5: REGULATORY DEFERRALS

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

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

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

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

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

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

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.

The following regulatory balances are as of December 31, 2015 and 2014.

(amounts in thousands)	2015	2014
Regulatory Assets:		
Swap termination payments	$ 24,910	$ 27,480
Conservation expenses	9,142	6,876
Debt issuance costs	7,569	9,097
Fair Value of Investments	3,130	3,311
	$ 44,751	$ 46,764
Regulatory Liabilities:		
Contributed Capital	$ 21,272	$ 21,913
Fair Value of Investments	2,301	2,985
	$ 23,573	$ 24,898

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

NOTE 6: LONG-TERM DEBT

REVENUE BONDS AND NOTES PAYABLE

(amounts in thousands)	January 1, 2015	Additions	Reductions	December 31, 2015	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2016, to July 1, 2034 (net unamortized premiums of $308)	$ 14,399	$ -	$ (461)	$ 13,938	$ 445
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2016, to July 1, 2029 (net unamortized premiums of $36)	243,425	13,528	(23,092)	233,861	23,100
Notes Payable, 0.25% to 2.0%, due June 1, 2016, to June 1, 2031	9,543	-	(811)	8,732	805
Chelan Hydro Consolidated System Revenue Bonds, 5.125%, due July 1, 2015	25,430	-	(25,430)	-	-
Consolidated System Revenue Bonds, 3% to 6.897%, due July 1, 2016, to July 1, 2042 (net unamortized premiums of $7,252)	450,807	15	(87,897)	362,925	11,190
	$ 743,604	$ 13,543	$ (137,691)	$ 619,456	$ 35,540

(amounts in thousands)	January 1, 2014	Additions	Reductions	December 31, 2014	Due Within One Year
Rocky Reach Revenue Bonds, 5%, due July 1, 2015, to July 1, 2034 (net unamortized premiums of $344)	$ 16,277	$ -	$ (1,878)	$ 14,399	$ 425
Rock Island Revenue Bonds, 4% to 6.05%, due June 1, 2015, to June 1, 2029 (net unamortized premiums of $43)	252,100	14,018	(22,693)	243,425	23,085
Notes Payable, 0.5% to 2.0%, due June 1, 2015, to June 1, 2031	39,493	-	(29,950)	9,543	806
Chelan Hydro Consolidated System Revenue Bonds, 5.125%, due July 1, 2015	25,430	-	-	25,430	25,430
Consolidated System Revenue Bonds, 1.867% to 6.897%, due July 1, 2015, to July 1, 2042 (net unamortized premiums of $8,840)	494,041	16	(43,250)	450,807	21,060
	$ 827,341	$ 14,034	$ (97,771)	$ 743,604	$ 70,806

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

PRINCIPAL AND INTEREST

(amounts in thousands)	Principal	Interest	Estimated Debt Service
2016	$ 35,540	$ 14,764	$ 50,304
2017	36,023	14,254	50,277
2018	36,112	13,737	49,849
2019	37,192	13,124	50,316
2020	54,534	12,451	66,985
2021-2025	274,778	43,374	318,152
2026-2030	168,818	13,515	182,333
2031-2035	63,194	7,036	70,230
2036-2040	10,435	3,003	13,438
2041-2042	8,370	770	9,140
Total	$ 724,996	$ 136,028	$ 861,024

Estimated principal retirements are based on the assumption that all bonds are called or purchased at par. Principal retirements of $725 million also include $113 million of future appreciation on Capital Appreciation Bonds (CABs).

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

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

The 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, 2015 and 2014, the District was in compliance with all debt covenants.

NOTE 7: PURCHASED POWER SUPPLY

A significant portion of the electric distribution system power is purchased from the District's Hydro projects on a cost-plus basis. Of the total kilowatt-hours purchased by the electric distribution system during 2015, approximately 27% was provided by the Rocky Reach project, 14% by the Rock Island project, 4% by the Lake Chelan project and 55% from other sources. This purchased power is used to meet local load requirements, meet certain contractual obligations, and support the District's hedging strategy.

NOTE 8: EMPLOYEE BENEFIT PLANS

PENSION PLANS

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

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

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

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

PERS PLAN 1

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

Contributions. The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS PLAN 1

Actual Contribution Rates:	Employer	Employee
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

For the years ended December 31, 2015 and 2014, the District's actual contributions to the plan were $64,306 and $70,471, 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 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 2015 were as follows:

PERS PLAN 2/3

Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

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

For the years ended December 31, 2015 and 2014, the District's actual contributions to the plans were $6,539,394 and $5,428,339, respectively.

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

At December 31, 2015 and 2014, the District reported a total pension liability of $51.8 million and $40.9 million, respectively, for its proportionate share of the net pension liabilities as follows:

(amounts in thousands)	Liability 2015	Liability 2014
PERS 1	$ 27,800	$ 27,309
PERS 2/3	$ 24,014	$ 13,618

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

	Proportionate Share 12/31/14	Proportionate Share 12/31/15	Change in Proportion
PERS 1	.542102%	.531455%	(.010647)%
PERS 2/3	.673703%	.672073%	(.001630)%

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

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, 2015, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

PENSION EXPENSE

For the years ended December 31, 2015 and 2014, the District recognized pension expense as follows:

(amounts in thousands)	Pension Expense 2015	2014
PERS 1	$ 1,040	$ 2,145
PERS 2/3	2,773	2,308
TOTAL	$ 3,813	$ 4,453

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

At December 31, 2015 and 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	2015		2014	
(amounts in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 1,520	$ -	$ 3,415
Contributions subsequent to the measurement date	1,661	-	1,226	-
TOTAL	$ 1,661	$ 1,520	$ 1,226	$ 3,415

PERS Plan 2/3	2015		2014	
(amounts in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,553	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	6,410	-	14,436
Changes of assumptions	39	-	-	-
Contributions subsequent to the measurement date	2,114	-	1,498	-
TOTAL	$ 4,706	$ 6,410	$ 1,498	$ 14,436

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, 2016.

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 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

The long-term expected rate of return on DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

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

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

Estimated Rates of Return by Asset Class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

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

SENSITIVITY OF NET PENSION LIABILITY

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

(amounts in thousands)	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 33,847	$ 27,800	$ 22,601
PERS 2/3	$ 70,217	$ 24,014	$ (11,363)

PENSION PLAN FIDUCIARY NET POSITION

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

DEFERRED COMPENSATION PLANS

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

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

The District also offers its employees a 401(a) employer matching plan. The 401(a) is a qualified, tax deferred plan that allows the District to match employee contributions made to the 457 Plan. Under the 401(a) Plan, the District will match each employee's contribution to the 457 Plan at a rate of 50% with a cap of 5% of an employee's annual base salary up to a maximum of $9,000 or up to a maximum of $12,000 for employees age 50 years and over. The District's 401(a) Plan matching contributions for the years ending December 31, 2015 and 2014 were $1.9 million and $1.7 million, respectively. Matching contribution rates are at the District's discretion within the requirements of the current bargaining unit agreement.

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

PLAN DESCRIPTION

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

FUNDING POLICY

The District's subsidy of the cost of 2015 and 2014 premiums for eligible retired plan members and their spouses amounted to $89,000 and $106,000, respectively. Plan members receiving benefits contributed 79% and 78% of the premium costs for years 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, total member contributions were $330,000 and $374,000, respectively. Future subsidies will be provided by the District at the 2007 level adjusted for inflation, with plan members contributing the remaining premium. Contribution rates may be adjusted at the District's discretion.

ANNUAL OTHER POSTEMPLOYMENT BENEFIT COST AND NET OBLIGATION

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. The District's OPEB plan was fully funded as of both December 31, 2015 and December 31, 2014. As a result, the District's annual OPEB cost and net OPEB obligation were zero as of both December 31, 2015 and December 31, 2014.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2013 through 2015 were as follows:

Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
12/31/15	$	-	0%	$	-
12/31/14		-	0%		-
12/31/13		-	0%		-

FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2015 and 2014, the plan was fully funded. The covered payroll (annual wages of active employees covered by the plan) was $55.9 million and $53.7 million for 2015 and 2014, respectively. The ratio of the current ARC to the covered payroll was 0.0%.

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

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

METHODS AND ASSUMPTION

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

The following assumptions are integral to the actuarial calculations:

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

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

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

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

NOTE 10: SEGMENT DISCLOSURE

The District has outstanding revenue bonds used to finance the Rocky Reach and Rock Island hydroelectric production facilities. The outstanding bond issues are secured by a pledge of the net revenues of each project. Each project has an external requirement to be accounted for separately, and investors in the revenue bonds rely solely on the revenue generated by the individual projects for repayment. Summary financial information as of and for the years ended December 31, 2015 and 2014, 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.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

CONDENSED STATEMENTS OF NET POSITION

(amounts in thousands)	Rocky Reach 2015	Rock Island 2015	Rocky Reach 2014	Rock Island 2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
Current assets	$ 8,189	$ 4,833	$ 10,271	$ 7,691
Restricted assets – current	16	2,659	257	7,222
Total current assets	8,205	7,492	10,528	14,913
Utility plant, net	314,270	316,218	324,868	315,844
Restricted assets – noncurrent	42,043	84,501	39,101	73,563
Other assets	8,436	22,490	6,433	21,005
Deferred outflows of resources	1,701	4,593	728	3,822
Total assets and deferred outflows of resources	$ 374,655	$ 435,294	$ 381,658	$ 429,147
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION				
Current liabilities	$ 25,754	$ 35,892	$ 25,443	$ 35,324
Long-term debt	172,371	328,959	196,682	348,578
Other liabilities	22,947	24,236	20,529	21,623
Total liabilities	221,072	389,087	242,654	405,525
Deferred inflows of resources	2,258	28,208	4,997	32,272
Net Position:				
Invested in capital assets, net of related debt	300,206	92,038	310,388	82,805
Restricted	42,270	87,354	40,324	81,740
Unrestricted	(191,151)	(161,393)	(216,705)	(173,195)
Total net position	151,325	17,999	134,007	(8,650)
Total liabilities, deferred inflows of resources and net position	$ 374,655	$ 435,294	$ 381,658	$ 429,147

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(amounts in thousands)	Rocky Reach 2015	Rock Island 2015	Rocky Reach 2014	Rock Island 2014
Operating revenues	$ 96,784	$ 100,535	$ 93,115	$ 106,006
Less:				
Operating expenses	49,728	39,057	44,164	42,784
Depreciation and amortization	16,634	10,975	16,512	10,904
Operating income	30,422	50,503	32,439	52,318
Other expense	13,104	24,650	13,809	25,822
Income before capital contributions and interfund equity transfers	17,318	25,853	18,630	26,496
Capital contributions	-	796	-	555
Interfund equity transfers	-	-	(1,614)	(608)
Change in net position	17,318	26,649	17,016	26,443
Total net position – beginning of year	134,007	(8,650)	132,218	(19,679)
Cumulative effect of change in accounting principle	-	-	(15,227)	(15,414)
Beginning of year, as adjusted	134,007	(8,650)	116,991	(35,093)
Total net position - end of year	$ 151,325	$ 17,999	$ 134,007	$ (8,650)

CONDENSED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Rocky Reach 2015	Rock Island 2015	Rocky Reach 2014	Rock Island 2014
Net cash provided (used) by:				
Operating activities	$ 44,719	$ 60,392	$ 48,047	$ 61,174
Capital and related financing activities	(43,236)	(56,530)	(45,734)	(51,665)
Investing activities	(6,847)	(11,564)	2,333	(1,798)
Net (decrease)/increase	(5,364)	(7,702)	4,646	7,711
Beginning cash and cash equivalents	9,945	14,776	5,299	7,065
Ending cash and cash equivalents	$ 4,581	$ 7,074	$ 9,945	$ 14,776

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, 2015 and 2014 is summarized in the following table for each insurance program:

	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2015	$ -	$ 104,000	$ 1,769,000	$ 147,000
Claims accrued	-	470,898	10,853,458	933,481
Claims paid	-	(497,898)	(10,966,458)	(923,481)
Claims Liability as of December 31, 2015	$ -	$ 77,000	$ 1,656,000	$ 157,000

	Property & Liability	Workers Compensation	Medical & Health	Dental
Claims Liability as of January 1, 2014	$ -	$ 100,000	$ 1,519,000	$ 145,000
Claims accrued	-	682,350	11,450,893	958,769
Claims paid	-	(678,350)	(11,200,893)	(956,769)
Claims Liability as of December 31, 2014	$ -	$ 104,000	$ 1,769,000	$ 147,000
Commercial Insurance Deductible as of December 31, 2014 and 2015	Up to $2,000,000 depending on line of coverage	$500,000 per incident	N/A	N/A

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

NOTE 12: COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

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

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

The Columbia River Distinct Population Segment of bull trout is listed by the USFWS as a threatened species under the ESA, and a Bull Trout Recovery Team has been established, of which the District is an active member. A draft Upper Columbia River Bull Trout Recovery Plan has been developed which contains recommendations for recovering bull trout in the Columbia River Basin. The District provided USFWS comments to the subsequent Draft Mid-Columbia Recovery Unit Implementation Plan (RUIP) released on June 2, 2015 for the Bull Trout Recovery Plan. The District continues to work with USFWS to refine the scientific elements of the RUIP describing potential hydro impacts on bull trout. The District developed comprehensive Bull Trout Management Plans for the Rocky Reach and Rock Island projects in response to the USFWS's biological opinion on potential effects of the 2004 HCPs on bull trout, which are not covered by the HCPs. Implementation of the plans began in May 2005. This plan was later replaced with the Comprehensive Bull Trout Management Plan as required by the Comprehensive Settlement Agreement for the Rocky Reach Project Relicensing. The Bull Trout Management Plan was approved in the new license and provides for protection, mitigation and enhancement measures. Additionally, the USFWS filed its Biological Opinion for the Rocky Reach Project in December 2008 concluding that the Project is not likely to jeopardize the continued existence of bull trout or destroy or adversely modify critical habitat. The USFWS Biological

Opinion provided terms and conditions of an incidental take permit and required five reasonable and prudent measures be implemented to minimize the incidental take of bull trout. In September 2010, the USFWS formally designated critical habitat for bull trout in the upper mid-Columbia river, including the project areas for Rock Island and Rocky Reach hydros.

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

ASSET MANAGEMENT PROGRAM

During 2005, the District entered into a contract to rehabilitate the first of up to six generating units at Powerhouse 1 at Rock Island. The first two units (B9 & B10) were completed under the contract for unit rehabilitation. In 2010, in response to unfavorable economic conditions impacting the District, it was decided that the District defer the rehabilitation of several units until such time as the units began to experience failure or were declared unavailable due to operational concerns. In 2010, it was recommended that it was in the best interest of the District to proceed with rehabilitation of units B5 through B8. That decision was confirmed by an in-depth economic analysis in 2014.

In 2015, further analysis was performed, and it was identified that there was additional value in installing new higher efficiency turbines that were not considered in the original analysis. The expanded scope increased the contract price for the third unit (B6) by $2.9 million for a total of $19.7 million. As of December 31, 2015, the remaining commitment for the third unit totaled approximately $14.1 million. Also in 2015, a contract in the amount of $31.4 million was entered into for the work to be performed on the fourth unit (B5), as well as turbine components for the fifth and sixth units (B7 and B8). As of December 31, 2015, the remaining commitment was $31.4 million.

During 2012, the District entered into a $4.9 million contract for the programming and supply of digital turbine governors and unit controllers at Rocky Reach and Rock Island. The contract included replacement of the electronic portion of the governors, associated interface devices to the hydraulic portion and the unit controls with the new programmable logic controller based systems. The original contract was later amended for a total cost of $5.6 million. As of December 31, 2015, the remaining construction commitment totaled approximately $3.1 million.

During 2014, the District entered into a $22.3 million contract for turbine repairs for the four largest units at Rocky Reach, units C-8 through C-11. Components of turbine runners have failed and need repair. Runner repair will require disassembly of the turbine and work on associated turbine parts to return the units to reliable service. Plans are to do the long-term repairs on one unit per year through 2020. As of December 31, 2015, the remaining commitment totaled approximately $19.0 million.

During 2015, the District entered into a $4.6 million contract for the replacement of the existing intake gantry crane at Rocky Reach Dam. As of December 2015, the remaining commitment totaled approximately $4.5 million.

During 2015, the District also entered into a $17.4 million contract to provide Rocky Reach units C-8 through C-11 stator winding replacement. The contract included a three-year warranty and an option to increase the warranty to five years for each unit, as well as the option to refurbish the rotor poles of Unit C-9. As of December 31, 2015, the remaining commitment totaled approximately $16.7 million.

POWER MARKETING

As of December 31, 2015, the District had entered into forward block contracts obligating it to deliver approximately 7,150,900 MWh of energy at various times during each of the years in the period 2016-2020. The District expects to receive approximately $274.1 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 2016-2020, in exchange for approximately $247.6 million.

The District has committed to purchase approximately 2,533,000 MWh of energy at a cost of approximately $67.5 million to fulfill these power marketing obligations, meet District load requirements and mitigate credit risk. The District believes it has sufficient internal resources, or has acquired sufficient external resources to complete these transactions.

PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. D.B.A. NOANET

The District was a member of Northwest Open Access Network ("NoaNet"), a Washington non-profit mutual corporation from its inception in 2000 until the District withdrew from membership on September 3, 2012. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over Public Benefit Fibers leased from Bonneville Power Administration throughout the State of Washington. The network began commercial operation in January 2001.

Withdrawing members remain potentially subject to liabilities to NoaNet and any third parties incurred prior to withdrawal as set forth in Repayment Agreements. Accordingly, the District is contingently obligated under agreements entered into with NoaNet and debt providers prior to the District's withdrawal from membership. The District's total contingent obligation under these agreements is $282,000 as of December 31, 2015, all of which is associated with its guarantee of 10.12% of network revenue bonds issued by NoaNet in 2001. The District would be ultimately liable under this guarantee arrangement only in the event of NoaNet's default on the debt. As such, the District has not recorded a liability for this contingent liability.

ENERGY NORTHWEST

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

The Project was constructed in phases. The District is a participant in phases I and II of the Project, which have a combined generating capacity of 64 MW. In exchange for paying certain project costs after phase I and II commenced commercial operation, including debt service on the Wind Project Revenue Bonds issued by Energy Northwest to finance the construction of the Project; the District received a 12.5% share of the total project output up to a maximum of 7.96 MW. As of December 31, 2015, the District's share of bond principal was $5.5 million and was not to exceed $6.9 million with the step-up provision. The power purchased under this contract is reported as a component of Purchased Power Operating Expenses.

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

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

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

CLAIMS AND LITIGATION

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

NOTE 13: SUPPLEMENTAL DISCLOSURE OF TELECOMMUNICATION SERVICES

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

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

(amounts in thousands)	2015	2014
Operating revenues		
Wholesale fiber services	$ 6,267	$ 5,986
Fiber leasing	539	525
Intradistrict revenues	2,442	2,404
Total operating revenues	9,248	8,915
Operating expenses		
Administrative and general	1,568	1,561
Repairs and maintenance	1,725	1,850
Other operating	2,927	2,318
Depreciation expense	3,853	5,686
Total operating expense	10,073	11,415
Operating loss	(825)	(2,500)
Other income/(expenses)	246	50
Net loss before capital contributions	(579)	(2,450)
Capital contributions	60	209
Interfund equity transfers	8,200	-
Change in net position	$ 7,681	$ (2,241)

Following is a summary of the District's fiber-optic Statements of Net Position as of December 31, 2015 and 2014.

(amounts in thousands)	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets	$ 5,522	$ 5,517
Utility plant, net and other assets	52,924	48,221
Total assets	58,446	53,738
Deferred outflows of resources	291	124
Total assets and deferred outflows of resources	$ 58,737	$ 53,862
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Total liabilities	$ 483	$ 2,835
Deferred inflows of resources	362	817
Net position	57,892	50,210
Total liabilities, deferred inflows of resources and net position	$ 58,737	$ 53,862

The District's net capital investment in telecommunications plant and equipment for 2015 and 2014 was $(2.0) million and $1.2 million, respectively. The District's cumulative capital investment in telecommunications plant and equipment as of December 31, 2015, was $89.7 million. The capital investment, as well as cumulative net losses, was funded by interfund equity transfers.

NOTES TO BASIC FINANCIAL STATEMENTS (CONT.)

Years ended December 31, 2015 and 2014

REQUIRED SUPPLEMENTARY INFORMATION

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

	PERS Plan 1		PERS Plan 2/3	
(dollars in thousands)	2015	2014	2015	2014
Proportion of the net pension liability	.531455%	.542102%	.672073%	.673703%
Proportionate share of the net pension liability	$ 27,800	$ 27,309	$ 24,014	$ 13,618
Covered-employee payroll	630	765	64,259	58,959
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	4,412.70%	3,569.80%	37.37%	23.10%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	61.19%	89.20%	93.29%

PERS PLAN 1

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 64	$ 70	$ 74	$ 75	$ 78	$ 69	$ 153	$ 160	$ 179	$ 116
Contributions in relation to the contractually required contribution	(64)	(70)	(74)	(75)	(78)	(69)	(153)	(160)	(179)	(116)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 630	$ 765	$ 913	$ 1,047	$ 1,332	$ 1,301	$ 2,152	$ 2,254	$ 3,163	$ 3,846
Contributions as a percentage of covered-employee payroll	10.21%	9.21%	8.11%	7.20%	5.82%	5.31%	7.11%	7.12%	5.66%	3.01%

PERS PLAN 2/3

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

(dollars in thousands)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 6,539	$ 5,428	$ 4,575	$ 3,943	$ 3,284	$ 2,795	$ 3,514	$ 3,649	$ 2,803	$ 1,431
Contributions in relation to the contractually required contribution	(6,539)	(5,428)	(4,575)	(3,943)	(3,284)	(2,795)	(3,514)	(3,649)	(2,803)	(1,431)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 64,259	$ 58,959	$ 56,186	$ 54,778	$ 53,085	$ 52,632	$ 51,144	$ 50,726	$ 49,119	$ 46,736
Contributions as a percentage of covered-employee payroll	10.18%	9.21%	8.14%	7.20%	6.19%	5.31%	6.87%	7.19%	5.71%	3.06%

SCHEDULE OF FUNDING PROGRESS FOR POSTRETIREMENT HEALTH BENEFITS PROGRAM

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

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2015, with comparative totals for December 31, 2014

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2015	2014
OPERATING REVENUES									
Retail sales	$ -	$ -	$ -	$ 54,010	$ -	$ -	$ (955)	$ 53,055	$ 53,846
Wholesale sales	96,576	100,367	8,185	203,406	8,059	-	(117,504)	299,089	321,691
Other operating revenues	208	168	1,040	25,888	-	17,080	(26,041)	18,343	24,851
	96,784	100,535	9,225	283,304	8,059	17,080	(144,500)	370,487	400,388
OPERATING EXPENSES									
Purchased power and water	-	-	-	164,338	-	-	(115,062)	49,276	97,636
Generation	48,493	38,420	5,037	-	-	-	(12,999)	78,951	77,030
Utility services	-	-	-	57,572	-	-	(15,238)	42,334	39,653
Other operation and maintenance	-	-	-	-	-	12,258	(1,201)	11,057	11,464
Taxes	1,235	637	97	5,291	-	-	-	7,260	7,654
Depreciation and amortization	16,634	10,975	1,889	14,376	-	3,436	-	47,310	48,408
	66,362	50,032	7,023	241,577	-	15,694	(144,500)	236,188	281,845
OPERATING INCOME	30,422	50,503	2,202	41,727	8,059	1,386	-	134,299	118,543
OTHER INCOME (EXPENSE)									
Interest on long-term debt	(692)	(13,857)	-	(43)	(15,906)	-	19	(30,479)	(35,117)
Interest on intersystem loans	(12,643)	(10,600)	(836)	(138)	24,876	(640)	(19)	-	-
Amortization of regulatory assets - debt issuance costs	(23)	(270)	-	-	(684)	-	-	(977)	(1,532)
Investment income	555	2,079	91	1,861	864	235	-	5,685	4,545
Federal subsidy income	-	-	-	-	586	-	-	586	584
Other	(301)	(2,002)	(1,129)	2,277	(11,442)	870	-	(11,727)	(2,572)
	(13,104)	(24,650)	(1,874)	3,957	(1,706)	465	-	(36,912)	(34,092)
INCOME BEFORE CAPITAL CONTRIBUTIONS & INTERFUND EQUITY TRANSFERS	17,318	25,853	328	45,684	6,353	1,851	-	97,387	84,451
CAPITAL CONTRIBUTIONS	-	796	-	3,839	-	-	-	4,635	4,626
INTERFUND EQUITY TRANSFERS (2)	-	-	58,805	(58,805)	-	-	-	-	-
CHANGE IN NET POSITION	17,318	26,649	59,133	(9,282)	6,353	1,851	-	102,022	89,077
TOTAL NET POSITION									
Beginning of year	134,007	(8,650)	18,451	387,087	52,981	6,197	-	590,073	557,990
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	(56,994)
Beginning of year, as adjusted	134,007	(8,650)	18,451	387,087	52,981	6,197	-	590,073	500,996
TOTAL NET POSITION									
End of year	$ 151,325	$ 17,999	$ 77,584	$ 377,805	$ 59,334	$ 8,048	$ -	$ 692,095	$ 590,073

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

2. 2015 interfund equity transfers represent an interfund repayment of debt.

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

For the years ended December 31, 2015 and 2014

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2015	2014
CURRENT ASSETS									
Cash and cash equivalents	$ 847	$ 962	$ 741	$ 12,956	$ 4,718	$ 1,109	$ -	$ 21,333	$ 55,086
Investments	570	648	499	8,714	3,172	745	-	14,348	56,475
Accounts receivable, net	3,393	2,631	21	21,709	-	47	-	27,801	26,112
Accrued interest receivable	123	181	18	386	331	43	-	1,082	1,244
Materials and supplies	2,761	-	-	10,027	-	340	-	13,128	11,798
Prepayments and other	466	384	67	281	-	5	-	1,203	1,244
Current portion of unearned regulatory assets	29	27	-	51	2,865	6		2,978	2,978
	8,189	4,833	1,346	54,124	11,086	2,295	-	81,873	154,937
RESTRICTED ASSETS - CURRENT									
Cash and cash equivalents	10	1,590	1	458	-	658	-	2,717	5,439
Investments	6	1,069	-	308	-	443	-	1,826	5,574
	16	2,659	1	766	-	1,101	-	4,543	11,013
TOTAL CURRENT ASSETS	8,205	7,492	1,347	54,890	11,086	3,396	-	86,416	165,950
UTILITY PLANT									
In service, at original cost	618,350	573,979	121,976	533,068	-	97,022	-	1,944,395	1,921,034
Construction work in progress	5,955	14,674	10	9,715	-	1,162	-	31,516	25,551
Less-accumulated depreciation	(310,035)	(272,435)	(30,105)	(232,764)	-	(68,965)	-	(914,304)	(879,984)
	314,270	316,218	91,881	310,019	-	29,219	-	1,061,607	1,066,601
RESTRICTED ASSETS - NONCURRENT									
Cash and cash equivalents	3,724	4,522	-	1,668	478	-		10,392	20,963
Investments	38,319	79,979	-	21,096	21,208	6,188	-	166,790	139,499
	42,043	84,501	-	22,764	21,686	6,188	-	177,182	160,462
OTHER ASSETS									
Long-term receivables, net	-	-	-	960	-	-	-	960	1,555
Long-term investments	7,961	9,051	6,965	121,767	44,329	10,418	-	200,491	157,503
Regulatory assets, net	425	3,687	8	9,619	27,978	56	-	41,773	43,786
Derivative instrument asset	-	6,128	-	-	-	-	-	6,128	6,861
Other	50	3,624	3	14,703	-	16	(14,612)	3,784	3,935
	8,436	22,490	6,976	147,049	72,307	10,490	(14,612)	253,136	213,640
TOTAL ASSETS	372,954	430,701	100,204	534,722	105,079	49,293	(14,612)	1,578,341	1,606,653
DEFERRED OUTFLOWS OF RESOURCES									
Losses on refunding debt	-	2,871	-	-	5,631	-	-	8,502	11,475
Pensions	1,701	1,722	215	2,729	-	-	-	6,367	2,724
	1,701	4,593	215	2,729	5,631	-	-	14,869	14,199
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 374,655	$ 435,294	$ 100,419	$ 537,451	$ 110,710	$ 49,293	$ (14,612)	$ 1,593,210	$1,620,852

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

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2015	2014
CURRENT LIABILITIES									
Current portion of long-term obligations	$ 19,097	$ 29,134	$ 2,676	$ 805	$ (14,754)	$ -	$ -	$ 36,958	$ 73,195
Current portion of unearned wholesale power sales	652	646	-	5,799	625	-	-	7,722	8,166
Accounts payable	5,919	6,301	457	16,185	71	6,786	-	35,719	30,608
Accrued taxes	1,272	655	96	1,532	-	161	-	3,716	4,435
Accrued interest	341	161	-	22	7,121	-	-	7,645	9,772
Intersystem payables (receivables)	(1,543)	(1,022)	(396)	9,043	-	(6,082)	-	-	-
Accrued vacation and other	16	17	1	32	-	13,245	-	13,311	12,533
	25,754	35,892	2,834	33,418	(6,937)	14,110	-	105,071	138,709
LONG-TERM DEBT									
Revenue bonds and notes payable	13,938	233,860	-	8,733	362,925	-	-	619,456	743,604
Intersystem loans payable (receivable)	177,530	124,233	10,700	(9,198)	(330,400)	27,135	-	-	-
Less-current maturities	(19,097)	(29,134)	(1,258)	(805)	14,754	-	-	(35,540)	(70,806)
	172,371	328,959	9,442	(1,270)	47,279	27,135	-	583,916	672,798
OTHER LIABILITIES									
Unearned wholesale power sales revenue, less current portion	9,103	9,523	-	81,978	8,946	-	(14,612)	94,938	101,603
Net pension liability	13,844	14,013	1,747	22,210	-	-	-	51,814	40,926
Long-term contract customer deposit	-	-	-	18,500	-	-	-	18,500	18,500
Licensing obligation, less current portion	-	-	8,545	-	-	-	-	8,545	8,096
Other liabilities	-	700	-	-	-	-	-	700	537
	22,947	24,236	10,292	122,688	8,946	-	(14,612)	174,497	169,662
TOTAL LIABILITIES	221,072	389,087	22,568	154,836	49,288	41,245	(14,612)	863,484	981,169
DEFERRED INFLOWS OF RESOURCES									
Derivatives	-	6,128	-	-	-	-	-	6,128	6,861
Pensions	2,119	2,145	267	3,399	-	-	-	7,930	17,851
Regulatory liabilities	139	19,935	-	1,411	2,088	-	-	23,573	24,898
	2,258	28,208	267	4,810	2,088	-	-	37,631	49,610
TOTAL NET POSITION	151,325	17,999	77,584	377,805	59,334	8,048	-	692,095	590,073
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 374,655	$ 435,294	$ 100,419	$ 537,451	$ 110,710	$ 49,293	$ (14,612)	$ 1,593,210	$1,620,852

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

COMBINING SCHEDULE OF CASH FLOWS

For the year ended December 31, 2015, with comparative totals for December 31, 2014

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers	$ 95,897	$ 99,938	$ 9,224	$ 278,687	$ 7,435	$ 17,037	$ (144,659)	$ 363,559	$ 389,817
Payments to suppliers	(28,507)	(17,968)	(2,104)	(199,581)	(5)	(10,929)	144,659	(114,435)	(147,926)
Payments to employees	(22,671)	(21,578)	(2,903)	(29,537)	-	(619)	-	(77,308)	(76,777)
Insurance proceeds	-	-	-	-	-	-	-	-	1,739
Net cash provided by operating activities	44,719	60,392	4,217	49,569	7,430	5,489	-	171,816	166,853
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Additions to plant	(5,809)	(9,476)	(514)	(19,834)	-	(2,973)	-	(38,606)	(38,414)
Additions to pooled assets	139	125	12	-	-	(276)	-	-	-
Proceeds from sale of plant	31	-	-	399	-	29	-	459	1,391
Principal (paid) received on debt & intersystem loans	(23,824)	(34,159)	(60,620)	(13,827)	2,872	(6,501)	-	(136,059)	(95,662)
Interest (paid) received on debt & intersystem loans	(13,861)	(11,601)	(893)	432	6,855	(21)	-	(19,089)	(22,788)
Capital contributions	-	269	-	3,198	-	-	-	3,467	3,700
Other	88	(1,688)	(1,129)	751	(6,538)	826	-	(7,690)	(1,419)
Net cash (used in) provided by capital and related financing activities	(43,236)	(56,530)	(63,144)	(28,881)	3,189	(8,916)	-	(197,518)	(153,192)
CASH FLOWS FROM INVESTING ACTIVITIES									
Investments, net	(7,435)	(13,839)	(918)	11,479	(14,826)	269	-	(25,270)	21,360
Interest on investments	589	2,112	93	2,057	1,099	268	-	6,218	5,212
Long-term receivables	-	-	-	396	-	-	-	396	191
Other, net	(1)	163	58,805	(61,655)	-	-	-	(2,688)	(2,531)
Net cash (used in) provided by investing activities	(6,847)	(11,564)	57,980	(47,723)	(13,727)	537	-	(21,344)	24,232
NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS	(5,364)	(7,702)	(947)	(27,035)	(3,108)	(2,890)	-	(47,046)	37,893
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,945	14,776	1,689	42,117	8,304	4,657	-	81,488	43,595
CASH & CASH EQUIVALENTS, END OF YEAR	$ 4,581	$ 7,074	$ 742	$ 15,082	$ 5,196	$ 1,767	$ -	$ 34,442	$ 81,488

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

(amounts in thousands)	Rocky Reach	Rock Island	Lake Chelan	Utility Services	Financing Facilities	Internal Services	Intra-District Transactions (1)	2015	2014
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES									
Operating income	$ 30,422	$ 50,503	$ 2,202	$ 41,727	$ 8,059	$ 1,386	$ -	$ 134,299	$ 118,543
Depreciation and amortization	16,634	10,975	1,889	14,376	-	3,436	-	47,310	48,408
(Increase) decrease in operating assets:									
Accounts receivable, net	(395)	(107)	(3)	(943)	-	(42)	-	(1,490)	(4,577)
Materials and supplies	(354)	-	-	(964)	-	(12)	-	(1,330)	(1,177)
Prepayments	51	(1)	3	(12)	-	-	-	41	159
Other	-	-	-	(269)	-	-	-	(269)	112
Deferred outflows of resources	(973)	(985)	(123)	(1,560)	-	-	-	(3,641)	(148)
Increase (decrease) in operating liabilities:									
Accounts payable	122	575	141	(210)	(4)	94	-	718	10,846
Accrued taxes	(143)	(14)	(3)	(251)	-	(308)	-	(719)	(388)
Accrued vacation and other	(413)	(321)	79	498	-	935	-	778	344
Unearned wholesale revenue	(491)	(494)	-	(5,799)	(625)	-	-	(7,409)	(6,687)
Customer deposits	-	-	-	2,560	-	-	-	2,560	2,209
Net pension liability	2,909	2,944	367	4,667	-	-	-	10,887	(18,641)
Deferred inflows of resources	(2,650)	(2,683)	(335)	(4,251)	-	-	-	(9,919)	17,850
Net cash provided by operating activities	$ 44,719	$ 60,392	$ 4,217	$ 49,569	$ 7,430	$ 5,489	$ -	$ 171,816	$ 166,853
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES									
Construction costs included in accounts payable	$ 818	$ 2,014	$ -	$ 1,065	$ -	$ 496	$ -	$ 4,393	$ 3,074
Capital contributions	-	-	-	527	-	-	-	527	570
Amortization of regulatory assets	-	-	-	(854)	-	-	-	(854)	(635)

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

ADDRESSES:

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

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

U.S. Bank Global Corporate Trust Services
111 Fillmore Ave.
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 2015 (1)

Customer	Business	Energy Sales (000 MWh)	Revenue from Energy Sales ($000)	Percent of Distribution's Total Revenue
Douglas County PUD	Electric Utility	325	$ 5,204	2.0%
Alcoa Power	Aluminum Mfg.	88	2,207	0.8%
Stemilt Growers	Agriculture	54	1,091	0.4%
Keyes Fibre	Packaging	30	574	0.2%
Trout Inc.	Agriculture	29	599	0.2%
		526	$ 9,675	3.6%

1. Excludes non firm sales for resale.

DISTRIBUTION DIVISION

Statement of Revenues and Expenses ($000)

Calendar Year	2011	2012	2013	2014	2015
Operating revenues					
Retail	$ 52,388	$ 48,135	$ 49,099	$ 48,938	$ 48,014
Resale (1)	94,000	197,557	179,604	210,976	188,436
Other (2)	2,791	12,996	25,064	30,943	25,744
Total	149,179	258,688	253,767	290,857	262,194
Operating expenses (1)	141,117	225,856	225,796	277,462	225,526
Net operating revenue	8,062	32,832	27,971	13,395	36,668
Other income (expense)	4,016	(2,744)	907	1,966	969
Net revenue (3)	$ 12,078	$ 30,088	$ 28,878	$ 15,361	$ 37,637

1. Includes contractual purchases and nonfirm purchases for resale. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division. In 2015, 2014 Operating Expenses were restated to incorporate new GASB pension accounting requirements.

2. Beginning November 1, 2011, the Distribution Division includes transmission revenue under new transmission agreements.

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

DISTRIBUTION DIVISION

Energy Requirements, Resources and Power Costs

Calendar Year	2011	2012	2013	2014	2015
Requirements (000 MWh) (1)	5,662	9,062	8,372	10,155	9,021
Resources (000 MWh)					
Rocky Reach System (2)(3)	3,086	5,280	3,080	3,103	2,824
Rock Island System (3)	1,619	2,171	1,544	1,319	1,450
Lake Chelan System	480	425	444	426	440
Other purchases (4)	477	1,186	3,304	5,307	4,307
	5,662	9,062	8,372	10,155	9,021
Purchased Power Costs ($000)					
Rocky Reach System (2)(3)	$ 37,112	$ 69,860	$ 45,858	$ 46,437	$ 47,926
Rock Island System (2)(3)	38,509	60,495	49,592	53,109	50,443
Lake Chelan System	11,430	11,640	11,931	13,270	8,185
Other purchases (4)	14,429	32,417	63,698	106,240	57,475
	$ 101,480	$ 174,412	$ 171,079	$ 219,056	$ 164,029
Average cost ($/MWh) (5)	$ 18	$ 19	$ 20	$ 22	$ 18

1. Net of timing differences and losses. In 2013, year 2012 requirements were restated for Douglas County PUD power, slice and real-time activities and to correct an entry error.

2. Effective November 1, 2011, the Distribution Division share of Rocky Reach output increased under new power sales contracts. Effective June 8, 2012, the Distribution Division share of Rock Island output increased under new power sales contracts.

3. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.

4. Other purchases include firm and non-firm power purchased to: meet local requirements and certain contractual obligations, hedge price movements and minimize the District's overall risk exposure to changes in power prices. Effective January 1, 2015, "booked-out" energy is excluded due to a change in reporting from gross to net.

5. Includes actual costs of power of the Distribution Division plus allocable administrative and other expenses of the Distribution Division. Fluctuations in average cost may be due to fluctuations in water conditions on the Columbia River, which may significantly affect market prices, and fluctuations in power repurchases from Alcoa under the prior power sales contract.

DISTRIBUTION DIVISION

Customers, Energy Sales and Revenues

Calendar Year	2011	2012 (1)	2013	2014	2015
Customers					
Retail:					
Residential	35,806	36,057	36,402	37,047	37,222
Commercial	6,092	6,133	6,182	6,246	6,290
Industrial	30	31	31	31	30
Irrigation, frost, lighting	5,708	5,690	5,683	5,673	5,617
Interdepartmental	537	552	556	560	543
Total retail customers	48,173	48,463	48,854	49,557	49,702
Resale:	78	79	84	85	87
Total customers	48,251	48,542	48,938	49,642	49,789
Energy Sales (000 MWh)					
Retail:					
Residential	776	762	788	782	742
Commercial	470	466	474	482	482
Industrial	284	273	272	252	256
Irrigation, frost, lighting	41	42	42	46	48
Interdepartmental	19	22	24	23	26
Total retail sales	1,590	1,565	1,600	1,585	1,554
Resale:					
Alcoa Power (2)	1,622	2,138	59	69	88
Douglas County PUD	231	404	345	363	325
Other - firm/slice	586	2,059	2,114	1,945	2,155
Other - non firm/block/preschedule/real time (3)	1,733	2,995	4,190	6,224	4,714
Total sales for resale	4,172	7,596	6,708	8,601	7,282
Total energy sales	5,762	9,161	8,308	10,186	8,836
Revenue ($000)					
Retail:					
Residential	$ 26,560	$ 24,520	$ 25,178	$ 25,068	$ 24,021
Commercial	17,468	15,860	16,083	16,391	16,348
Industrial	6,089	5,502	5,490	5,154	5,185
Irrigation, frost, lighting	1,688	1,589	1,651	1,656	1,722
Interdepartmental	583	664	697	669	738
Total retail revenue	52,388	48,135	49,099	48,938	48,014
Resale:					
Alcoa Power (2)	24,340	39,394	1,899	2,808	2,207
Douglas County PUD	2,395	4,231	4,532	4,980	5,204
Other - firm/slice	19,402	65,866	78,527	76,136	84,262
Other - non firm/block/preschedule/real time (3)	47,863	88,066	94,646	127,052	96,763
Total resale revenue	94,000	197,557	179,604	210,976	188,436
Other revenue (4)	2,791	12,996	25,064	30,943	25,744
Total revenue	$ 149,179	$ 258,688	$ 253,767	$ 290,857	$ 262,194

1. In 2013, year 2012 total sales statistics were restated.

2. Prior to 2013, contractual power sales to Alcoa were accounted for in the Distribution Division.

3. Effective January 1, 2015, "booked-out" energy is excluded due to a change in reporting from gross to net.

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

HYDROELECTRIC SYSTEMS

Power Cost and Net Power Delivered ($000)

Calendar Year	2011	2012	2013	2014	2015
Rocky Reach System					
Operating expenses (1) (10)	$ 40,558	$ 37,467	$ 42,476	$ 44,163	$ 49,728
Debt service: (2)					
Hydro issues	2,628	-	-	-	-
Consolidated System loans	33,381	-	-	-	-
Depreciation and amortization (2)	-	16,942	16,652	16,512	16,634
Interest expense	-	16,133	15,194	14,209	13,336
Other (revenue) expense (3)(4)(9)	(2,172)	(886)	111	(960)	(440)
Total power cost (5)	$ 74,395	$ 69,656	$ 74,433	$ 73,924	$ 79,258
Net power delivered (000 MWh)	7,125	7,082	6,219	6,216	5,748
Cost in $/MWh	$ 10	$ 10	$ 12	$ 12	$ 14
Plant factor (6)	63%	62%	55%	55%	50%
Availability factor	94%	93%	79%	89%	79%
Average river flow (000 CFS) (7)	141	141	117	113	103
Rock Island System					
Operating expenses (1) (10)	$ 36,675	$ 38,041	$ 35,834	$ 42,783	$ 39,057
Debt service: (2)					
Hydro issues	23,055	-	-	-	-
Consolidated System loans	19,492	-	-	-	-
Depreciation and amortization (2)	-	10,518	11,180	10,904	10,975
Interest expense	-	27,041	26,260	25,388	24,457
Other (revenue) expense (3)(9)	(2,204)	(521)	1,174	(320)	(772)
Total power cost (5)	$ 77,018	$ 75,079	$ 74,448	$ 78,755	$ 73,717
Net power delivered (000 MWh)(8)	3,267	3,306	3,077	2,648	2,932
Cost in $/MWh	$ 24	$ 23	$ 24	$ 30	$ 25
Plant factor (6)	59%	60%	56%	48%	53%
Availability factor	92%	93%	90%	82%	81%
Lake Chelan System					
Operating expenses (1) (10)	$ 4,729	$ 4,608	$ 4,737	$ 5,709	$ 5,134
Debt service: (2)					
Hydro issues	-	-	-	-	-
Consolidated System loans	7,138	-	-	-	-
Depreciation and amortization (2)	-	1,847	1,856	1,864	1,889
Interest expense	-	4,052	3,929	3,790	836
Other (revenue) expense (3)(9)	(436)	(755)	39	(37)	(3)
Total power cost (5)	$ 11,431	$ 9,752	$ 10,561	$ 11,326	$ 7,856
Net power delivered (000 MWh)	480	425	444	426	440
Cost in $/MWh	$ 24	$ 23	$ 24	$ 27	$ 18
Plant factor (6)	93%	82%	86%	82%	85%
Availability factor	98%	99%	100%	90%	89%
Combined Hydro Cost in $/MWh	$ 15	$ 14	$ 16	$ 18	$ 18

See notes next page.

HYDROELECTRIC SYSTEMS (CONT.)

Power Cost and Net Power Delivered ($000)

1. *Does not include depreciation expense.*
2. *Year 2011 is based on accrual debt schedules. Before the expiration of the prior Rocky Reach and Rock Island power sales contracts on October 31, 2011 and June 7, 2012, respectively, most capital projects of those systems were financed with bond proceeds. Debt service on such bonds was approximately equal to interest expense and depreciation. Since the commencement of deliveries under new power sales contracts, the District has been and expects to finance the majority of capital expenditures with cash.*
3. *Includes other income and expenses that impact power cost.*
4. *In 2012, year 2011 was restated to reflect accounting changes following the effectiveness of the new power sales contracts as of November 1, 2011.*
5. *Non-GAAP, may not be comparable with similarly titled other District metrics.*
6. *Net power delivered as a percentage of rated capacity for the year.*
7. *Annual average Columbia River flow measured at Rocky Reach System in thousands of cubic feet per second (000 CFS).*
8. *After minor sales to operators' cottages and adjustments for encroachment and Canadian Treaty deliveries.*
9. *In 2013, year 2012 was restated to include additional revenue categories.*
10. *In 2015, year 2014 updated for the impacts of the retroactive implementation of GASB Statement No. 68 "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27," which became effective for the District in 2015.*

CONSOLIDATED SYSTEM

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

	2011	2012	2013	2014	2015
Operating revenues (1)					
Retail	$ 57,195	$ 53,330	$ 54,447	$ 54,782	$ 54,009
Resale	114,079	229,864	215,373	247,481	219,650
Other	18,792	29,069	42,542	49,355	44,009
Total	190,066	312,263	312,362	351,618	317,668
Less: Operating expenses					
Purchased power and water	(101,787)	(174,715)	(171,389)	(219,381)	(164,338)
Other operation & maintenance	(50,785)	(64,620)	(65,601)	(72,148)	(74,866)
Taxes	(5,100)	(5,094)	(5,686)	(5,742)	(5,388)
Depreciation & amortization	(20,923)	(20,900)	(20,542)	(20,992)	(19,700)
Operating income	11,471	46,934	49,144	33,355	53,376
Adjustments					
Add back depreciation & amortization	20,923	20,900	20,542	20,992	19,700
Add investment income	7,040	3,043	1,943	2,383	3,051
Add principal and interest payments from Rocky Reach & Rock Island	51,888	50,233	48,683	49,720	48,520
Subtract investment earnings credited to Rocky Reach & Rock Island	(892)	(132)	-	-	-
Total adjustments	78,959	74,044	71,168	73,095	71,271
Net revenues	90,430	120,978	120,312	106,450	124,647
Plus withdrawals (deposits) to Rate Stabilization Fund	-	-	-	-	-
Adjusted net revenues	$ 90,430	$ 120,978	$ 120,312	$ 106,450	$ 124,647
Available funds (2)	$ 147,990	$ 225,867	$ 233,294	$ 235,492	$ 202,221
Annual debt service	$ 48,699	$ 47,545	$ 41,668	$ 39,745	$ 42,751
Debt service coverage					
With available funds (required 1.25x)	4.90	7.30	8.49	8.60	7.65
Without available funds (required 1.00x)	1.86	2.54	2.89	2.68	2.92

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.

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, 2015 ($000)

Date of Bonds	Final Maturity Date	Series of	Original Principal Amount	Scheduled Retirement (1)	Actual Retirement (2)	Principal Amount Outstanding	Accumulated for Retirement (3)
CONSOLIDATED SYSTEM							
5/31/2007	7/1/2042	2007B	$ 8,370	$ -	$ -	$ 8,370	$ 418
5/31/2007	7/1/2037	2007C	25,590	3,945	3,945	21,645	1,239
6/3/2009	7/1/2032	2008B	92,880	7,820	31,685	61,195	972
8/11/2009	7/1/2019	2009C	6,545	3,595	3,595	2,950	243
8/11/2009	7/1/2039	2009D	27,015	-	-	27,015	1,800
6/1/2011	7/1/2026	2011A	107,500	23,940	23,940	83,560	5,244
6/1/2011	7/1/2026	2011B	72,220	16,085	16,085	56,135	3,377
11/9/2011	7/1/2026	2011C	164,425	22,055	69,360	95,065	5,351
Total Consolidated System			504,545	77,440	148,610	355,935	18,644
ROCK ISLAND SYSTEM							
3/17/1997	6/1/2029	1997A (4)	135,944	144,505	144,505	226,624	32,039
8/11/2009	7/1/2029	2009A	14,000	2,185	6,800	7,200	608
Total Rock Island System			149,944	146,690	151,305	233,824	32,647
ROCKY REACH SYSTEM							
8/11/2009	7/1/2034	2009A	15,895	2,265	2,265	13,630	764
Total Rocky Reach System			15,895	2,265	2,265	13,630	764
Grand Total			$ 670,384	$ 226,395	$ 302,180	$ 603,389	$ 52,055

1. Amount of serial bonds matured as of December 31, 2015 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, 2015 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, 2015 ($000)

	Allocated Principal Amount of Bonds Outstanding (1)	Adjustments to Loans Outstanding (2)	Net Loans Outstanding
Rocky Reach System	$ 182,335	$ (4,805)	$ 177,530
Rock Island System	131,622	(7,389)	124,233
Consolidated System (3)	41,978	(13,340)	28,638
	$ 355,935	$ (25,534)	$ 330,401

1. Represents aggregate principal amounts of Consolidated System Bonds allocated to intersystem and interfund loans.

2. Consists primarily of prior loan repayments. Also includes adjustments for unamortized original issue discounts, issuance costs and amount payable to and (receivable) from other systems.

3. Includes bond proceeds advanced to various funds and components of the Consolidated System for capital purposes.

CONSOLIDATED SYSTEM DEBT SERVICE AND HYDROELECTRIC SYSTEMS LOAN PAYMENTS

As of December 31, 2015

	Consolidated Bonds			Loan Payments (1)		
	Aggregate Annual Debt Service			Rocky	Rock	Total Loan
Year	Principal (2)	Interest (3)	Total	Reach	Island	Payments
2016	$ 11,190,000	$ 13,717,125	$ 24,907,125	$ 30,404,740	$ 16,621,856	$ 47,026,596
2017	11,675,000	13,251,089	24,926,089	29,214,359	16,357,379	45,571,738
2018	12,200,000	12,761,629	24,961,629	22,110,177	15,482,068	37,592,245
2019	12,547,400	12,195,179	24,742,579	19,884,836	14,849,247	34,734,083
2020	30,110,000	11,570,246	41,680,246	18,682,912	14,912,410	33,595,322
2021	27,385,000	10,365,450	37,750,450	16,995,034	14,174,292	31,169,326
2022	28,585,000	9,257,509	37,842,509	16,995,986	13,992,722	30,988,708
2023	29,885,000	8,058,120	37,943,120	16,928,190	13,986,388	30,914,578
2024	31,305,000	6,741,493	38,046,493	16,872,091	13,514,012	30,386,103
2025	34,840,000	5,342,760	40,182,760	14,732,661	13,060,229	27,792,890
2026	22,533,353	3,782,291	26,315,644	13,050,225	13,000,617	26,050,842
2027	2,930,000	2,095,306	5,025,306	11,627,056	12,999,821	24,626,877
2028	3,875,000	1,992,768	5,867,768	10,208,263	13,617,350	23,825,613
2029	2,345,000	1,887,003	4,232,003	8,878,935	9,396,242	18,275,177
2030	2,450,000	1,779,505	4,229,505	7,463,981	10,863,167	18,327,148
2031	2,565,000	1,664,935	4,229,935	6,054,618	10,348,046	16,402,664
2032	46,727,775	1,466,197	48,193,972	4,803,146	9,210,877	14,014,023
2033	2,800,000	1,262,077	4,062,077	4,220,632	9,158,162	13,378,794
2034	2,930,000	1,131,130	4,061,130	3,961,897	8,697,915	12,659,812
2035	3,065,000	998,757	4,063,757	2,638,751	7,726,901	10,365,652
2036	3,195,000	860,282	4,055,282	1,388,256	7,567,744	8,956,000
2037	2,101,027	715,936	2,816,963	289,191	7,303,721	7,592,912
2038	1,905,000	565,037	2,470,037	289,191	6,488,326	6,777,517
2039	194,940	477,106	672,046	146,202	3,091,288	3,237,490
2040	-	385,020	385,020	-	1,033,001	1,033,001
2041	-	385,020	385,020	-	928,704	928,704
2042	7,951,826	385,020	8,336,846	-	649,708	649,708
2043	-	-	-	-	410,126	410,126
2044	-	-	-	-	19,601	19,601
Total	$ 337,291,321	$ 125,093,990	$ 462,385,311	$ 277,841,330	$ 279,461,920	$ 557,303,250

1. *Represents loan payment obligations of the Rocky Reach and Rock Island Hydroelectric Systems to the Consolidated System with respect to intersystem loans from the Consolidated System.*
2. *Includes serial and balloon payments reduced by funds held in Reserve Accounts at the time of final maturity. The District may elect to utilize the Reserve Accounts other than as shown depending on market conditions and limitations contained in the governing resolutions. The District anticipates that most balloon payments will be made as scheduled on or prior to the dates they become due, however the District may elect to refinance balloon payments.*
3. *Interest is net of Build America Bond (BAB) direct payment Federal subsidy assumed at 32 percent.*

CONSOLIDATED SYSTEM

Unrestricted and Restricted Fund Balances as of December 31, 2015 ($000)

Balances (1)	Utility Services (2)	Lake Chelan	Financing Facilities (3)	Internal Services Fund	Total
Unrestricted funds					
Revenue fund (4)	$ 35,608	$ 1,246	$ 7,027	$ 7,695	$ 51,576
Available funds:					
Rate stabilization fund	50,000	-	-	-	50,000
Operating reserve fund	53,100	-	-	-	53,100
Other unrestricted funds (5)	4,729	6,959	45,192	4,577	61,457
Total unrestricted funds	143,437	8,205	52,219	12,272	216,133
Restricted funds (6)	23,530	1	21,686	7,289	52,506
Total fund balances	$ 166,967	$ 8,206	$ 73,905	$ 19,561	$ 268,639

1. Amounts reflect both cash and book value of investments.

2. Includes Distribution Division, Fiber and Telecommunications, Water and Wastewater Systems and Treasury Services Fund.

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	2011	2012	2013	2014	2015
Original system net generation	652	750	573	695	481
Second powerhouse net generation	2,275	2,180	2,105	2,095	2,272
Total generation	2,927	2,930	2,678	2,790	2,753
Plus:					
Wanapum encroachment	637	673	662	191	506
Net interchange	54	43	80	(27)	23
System losses by contract	(4)	(4)	(4)	(9)	(9)
Less:					
Canadian Treaty Power (1)	(166)	(160)	(160)	(154)	(160)
Rocky Reach Encroachment (2)	(181)	(176)	(179)	(143)	(181)
Total net power delivered (3)	3,267	3,306	3,077	2,648	2,932
Percentage allocations (4)					
Power Purchasers	50%	50%	51%	51%	51%
District	50%	50%	49%	49%	49%
Sales:					
Power Purchasers	1,648	1,540	1,536	1,331	1,482
District	1,619	1,766	1,541	1,317	1,450
Total sales (3)	3,267	3,306	3,077	2,648	2,932
Net peaking capability	629	629	629	629	629
Availability factor	92%	93%	90%	82%	81%
Plant factor (5)	59%	60%	56%	48%	53%

1. *Energy to be made available for the account of Canada in accordance with arrangements made as a result of the Canadian Treaty.*
2. *Energy transferred from Rock Island to Rocky Reach to account for effects of one project on the output of the other.*
3. *Includes coordination exchange and pond transfers.*
4. *As defined by the Power Sales Contracts. The District received 50 percent of the power produced by the Rock Island System from 2009 through expiration of the Power Sales Contract on June 7, 2012. The District received 100 percent of the output from June 8, 2012 through June 30, 2012. Thereafter under the new Power Sales Contract, the District received a fixed 49 percent of the combined power produced by the Rock Island and Rocky Reach Systems.*
5. *Net Power Delivered as a percentage of rated capacity for the year.*

ROCK ISLAND SYSTEM

Cost of Power Comparison ($/MWh)

Calendar Year	2011	2012	2013	2014	2015
Rock Island System	$ 24	$ 23	$ 24	$ 30	$ 25
Bonneville Power (1)	$ 35	$ 35	$ 38	$ 38	$ 40

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

ROCK ISLAND SYSTEM

Historical and Projected Annual Capital Requirements ($000)

Actual Calendar Year	2011	2012	2013	2014	2015
	$ 20,873	$ 7,335	$ 3,914	$ 5,663	$ 11,320
Projected Calendar Year (1)	**2016**	**2017**	**2018**	**2019**	**2020**
	$ 15,109	$ 34,281	$ 25,742	$ 26,209	$ 23,564

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

ROCK ISLAND SYSTEM

Cash Available for Debt Service ($000)

Calendar Year	2011	2012	2013	2014	2015
Operating revenues:					
Power Purchasers	$ 38,509	$ 41,610	$ 50,314	$ 53,975	$ 51,201
District	38,509	45,514	48,315	51,831	49,166
Total revenues from sales	77,018	87,124	98,629	105,806	100,367
Other operating revenues	199	157	134	200	168
Total operating revenues	77,217	87,281	98,763	106,006	100,535
Total operating expenses (1)	47,252	48,559	47,013	53,687	50,032
Net operating revenues	29,965	38,722	51,750	52,319	50,503
Other expense	(27,128)	(26,803)	(28,092)	(25,823)	(24,649)
Net revenues	2,837	11,919	23,658	26,496	25,854
Add back:					
Depreciation	10,577	10,518	11,180	10,904	10,975
Interest expense	27,477	27,041	26,260	25,388	24,457
Amortization of deferred debt costs	330	130	127	271	270
Other (2)	1,810	431	1,497	134	165
Deduct:					
Amortization of deferred power sales revenue	-	(316)	(633)	(641)	(651)
Cash available for debt service	43,031	49,723	62,089	62,552	61,070
Annual debt service:					
Rock Island Bonds	23,055	20,612	23,646	23,022	23,422
Intersystem loans	19,492	19,242	18,234	19,186	17,668
Total debt service requirement	42,547	39,854	41,880	42,208	41,090
Cash available after payment of all debt service	$ 484	$ 9,869	$ 20,209	$ 20,344	$ 19,980
Coverage of total debt service	1.01	1.25	1.48	1.48	1.49

1. Includes depreciation expense. 2014 expenses restated in 2015 due to new GASB pension accounting requirements for pension expense.

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

ROCK ISLAND SYSTEM

Debt Service Requirements as of December 31, 2015

Twelve Months Ending Dec. 31	Bonds		Subordinate Lien Bonds		Intersystem Loans (1)		
	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements (2)	Estimated Debt Service	Estimated Principal Retirements	Total Estimated Debt Service
2016	$ 22,685,000	$ 22,685,000	$ 736,356	$ 415,000	$ 16,621,856	$ 6,294,225	$ 40,043,212
2017	22,685,000	22,685,000	734,756	430,000	16,357,379	6,367,269	39,777,135
2018	22,685,000	22,685,000	305,556	-	15,482,068	6,025,052	38,472,624
2019	22,685,000	22,685,000	752,556	465,000	14,849,247	5,939,072	38,286,803
2020	22,685,000	22,685,000	753,956	485,000	14,912,410	6,390,631	38,351,366
2021	22,685,000	22,685,000	754,556	505,000	14,174,292	6,078,590	37,613,848
2022	22,685,000	22,685,000	754,356	525,000	13,992,722	6,301,067	37,432,078
2023	22,685,000	22,685,000	753,356	545,000	13,986,388	6,716,574	37,424,744
2024	22,685,000	22,685,000	751,556	565,000	13,514,012	6,684,502	36,950,568
2025	22,685,000	22,685,000	753,250	590,000	13,060,229	6,673,609	36,498,479
2026	22,685,000	22,685,000	753,750	620,000	13,000,617	7,056,889	36,439,367
2027	22,685,000	22,685,000	752,750	650,000	12,999,821	7,524,936	36,437,571
2028	22,685,000	22,685,000	755,250	685,000	13,617,350	8,640,462	37,057,600
2029	12,556,000	12,556,000 (3)	147,994	111,994 (3)	9,396,242	4,876,550	22,100,236
2030	-	-	-	-	10,863,167	6,767,181	10,863,167
2031	-	-	-	-	10,348,046	6,695,273	10,348,046
2032	-	-	-	-	9,210,877	6,011,330	9,210,877
2033	-	-	-	-	9,158,162	6,361,514	9,158,162
2034	-	-	-	-	8,697,915	6,332,035	8,697,915
2035	-	-	-	-	7,726,901	5,780,869	7,726,901
2036	-	-	-	-	7,567,744	6,005,108	7,567,744
2037	-	-	-	-	7,303,721	6,141,158	7,303,721
2038	-	-	-	-	6,488,326	5,740,335	6,488,326
2039	-	-	-	-	3,091,288	2,722,826	3,091,288
2040	-	-	-	-	1,033,001	856,009	1,033,001
2041	-	-	-	-	928,704	809,808	928,704
2042	-	-	-	-	649,708	585,128	649,708
2043	-	-	-	-	410,126	383,687	410,126
2044	-	-	-	-	19,601	18,923	19,601
Total	$ 307,461,000	$ 307,461,000	$ 9,459,998	$ 6,591,994	$ 279,461,920	$ 152,780,612	$ 596,382,918

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 are called or 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, principal accounts and sinking funds. It should be recognized the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolution.*

ROCK ISLAND SYSTEM

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

	2011	2012	2013	2014	2015
Operating revenues					
Wholesale sales (1)	$ 77,018	$ 87,124	$ 98,629	$ 105,806	$ 100,367
Other operating revenues	199	157	134	200	168
Total operating revenues	77,217	87,281	98,763	106,006	100,535
Operating expenses					
Operations & maintenance	(35,903)	(37,279)	(35,156)	(42,462)	(38,421)
Taxes	(772)	(762)	(678)	(576)	(637)
Depreciation and amortization	(10,577)	(10,518)	(11,180)	(10,904)	(10,975)
Total operating expense	(47,252)	(48,559)	(47,014)	(53,942)	(50,033)
Operating income	29,965	38,722	51,749	52,064	50,502
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(19,125)	(19,242)	(18,234)	(19,186)	(17,668)
Add back depreciation and amortization	10,577	10,518	11,180	10,904	10,975
Add investment income (3)	1,966	1,430	1,524	1,767	2,079
Add CS investment income credited Power Purchasers (4)	349	132	-	-	-
Total adjustments	(6,233)	(7,162)	(5,530)	(6,515)	(4,614)
Net revenues	$ 23,732	$ 31,560	$ 46,219	$ 45,549	$ 45,888
Annual debt service					
Bonds	$ 19,650	$ 19,650	$ 22,685	$ 22,685	$ 22,685
Subordinate Bonds	3,958	962	961	337	737
Total debt service	$ 23,608	$ 20,612	$ 23,646	$ 23,022	$ 23,422
Debt service coverage					
Without available funds (required 1.00x)	1.01	1.53	1.95	1.98	1.96

1. Payments from Power Purchaser pursuant to long-term contracts for operating expenses, debt service related to Rock Island project debt and loans of Consolidated System bond proceeds and other contractually defined amounts. Increase from 2011 to 2012 is due to expiration of the prior power sales contract on June 7, 2012.

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

3. Investment income includes earnings from cash and investments in the Rock Island System.

4. Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.

ROCKY REACH SYSTEM

Debt Service Requirements as of December 31, 2015

Twelve Months Ending Dec. 31	Bonds		Intersystem Loans (1)		
	Estimated Debt Service	Estimated Principal Requirements (2)	Estimated Debt Service	Estimated Principal Requirements	Total Estimated Debt Service
2016	$ 1,126,500	$ 445,000	$ 30,404,740	$ 18,651,800	$ 31,531,240
2017	1,129,250	470,000	29,214,359	18,496,841	30,343,609
2018	1,125,750	490,000	22,110,177	12,601,324	23,235,927
2019	1,126,250	515,000	19,884,836	11,361,962	21,011,086
2020	1,125,500	540,000	18,682,912	10,813,510	19,808,412
2021	1,128,500	570,000	16,995,034	9,781,536	18,123,534
2022	1,130,000	600,000	16,995,986	10,422,550	18,125,986
2023	1,130,000	630,000	16,928,190	11,032,325	18,058,190
2024	1,128,500	660,000	16,872,091	11,669,551	18,000,591
2025	1,125,500	690,000	14,732,661	10,278,871	15,858,161
2026	1,126,000	725,000	13,050,225	9,265,300	14,176,225
2027	1,129,750	765,000	11,627,056	8,437,424	12,756,806
2028	1,126,500	800,000	10,208,263	7,550,719	11,334,763
2029	1,126,500	840,000	8,878,935	6,701,646	10,005,435
2030	1,129,500	885,000	7,463,981	5,721,337	8,593,481
2031	1,130,250	930,000	6,054,618	4,687,783	7,184,868
2032	1,128,750	975,000	4,803,146	3,750,061	5,931,896
2033	1,130,000	1,025,000	4,220,632	3,448,158	5,350,632
2034	364,300	310,550 (3)	3,961,897	3,444,978	4,326,197
2035	-	-	2,638,751	2,331,708	2,638,751
2036	-	-	1,388,256	1,251,761	1,388,256
2037	-	-	289,191	239,572	289,191
2038	-	-	289,191	258,335	289,191
2039	-	-	146,202	135,641	146,202
Total	$ 20,667,300	$ 12,865,550	$ 277,841,330	$182,334,693	$298,508,630

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 are called or purchased at par.*
3. *The final estimated debt service is reduced by the principal retirements assumed to be retired with the application of the appropriate Reserve Account. It should be recognized the District may elect to utilize the various Reserve Accounts in a manner other than as reflected, depending upon market conditions and the limitations contained in the governing resolutions.*

ROCKY REACH SYSTEM

Operating Results and Debt Service Coverage ($000)
As defined in the Rocky Reach Master Resolution 08-13390

	2011	2012	2013	2014	2015
Operating revenues					
Wholesale sales (1)	$ 77,260	$ 87,284	$ 91,361	$ 92,554	$ 96,575
Other operating revenues	281	176	231	561	208
Total operating revenues	77,541	87,460	91,592	93,115	96,783
Operating expenses					
Operations & maintenance	(39,027)	(35,946)	(41,140)	(43,080)	(48,493)
Taxes	(1,531)	(1,522)	(1,336)	(1,335)	(1,235)
Depreciation and amortization	(16,968)	(16,942)	(16,652)	(16,512)	(16,634)
Total operating expenses	(57,526)	(54,410)	(59,128)	(60,927)	(66,362)
Operating income	20,015	33,050	32,464	32,188	30,421
Adjustments					
Subtract Power Purchaser CS debt sales (2)	(32,763)	(30,991)	(30,450)	(30,535)	(30,852)
Add back depreciation and amortization	16,968	16,942	16,652	16,512	16,634
Add investment income (3)	455	271	228	395	555
Add CS investment income credited Power Purchasers (4)	543	-	-	-	-
Total adjustments	(14,797)	(13,778)	(13,570)	(13,628)	(13,663)
Net revenues	$ 5,218	$ 19,272	$ 18,894	$ 18,560	$ 16,758
Annual debt service	$ 2,638	$ 2,641	$ 2,640	$ 2,615	$ 1,128
Debt service coverage					
Without available funds (required 1.00x)	1.98	7.30	7.16	7.10	14.86

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. Increase from 2011 to 2012 is due to new power sales contracts effective November 1, 2011.

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

3. Investment income includes earnings from cash and investments in the Rocky Reach System.

4. Add back Consolidated System interest earnings credited to the Power Purchasers, which was deducted from wholesale sales.

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. All of its operations are conducted through its subsidiary, Puget Sound Energy, Inc. (PSE), a utility company. Puget Energy has no significant assets other than the stock of PSE. 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 (which websites are not incorporated herein by reference.)

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 2,800 full time employees as of December 31, 2015.

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 of the state of Washington. As of December 31, 2015, PSE had approximately 1,110,000 electric customers, and approximately 800,300 natural gas customers. In 2009, Puget Holdings LLC (Puget Holdings) completed its merger with Puget Energy. Puget Holdings is owned by a consortium of long-term infrastructure investors including Macquarie Infrastructure Partners I, Macquarie Infrastructure Partners II, Macquarie Capital Group Limited, FSS Infrastructure Trust, the Canada Pension Plan Investment Board, the British Columbia Investment Management Corporation and the Alberta Investment Management Corporation. All of Puget Energy's common stock is indirectly owned by Puget Holdings.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Puget Energy, are incorporated by reference herein: 1. The Company's Form 10-K for the year ended December 31, 2015 filed February 26, 2016 and any other such reports.

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

ALCOA INC. AND ALCOA POWER GENERATING INC.

Alcoa Power Generating, Inc. ("APGI") is a wholly owned subsidiary of Alcoa Inc. (formerly Aluminum Company of America)("Alcoa"). Formed in 1888 under the laws of the Commonwealth of Pennsylvania, Alcoa's principal offices are located at 390 Park Avenue, New York, New York, 10022-4608; the telephone number is (212) 836-2732.

Alcoa is a global leader in lightweight metals engineering and manufacturing. Lightweight metals used in Alcoa's products include aluminum, titanium, and nickel. Alcoa's innovative, multi-material products are used worldwide in aircraft, automobiles, commercial transportation, packaging, building and construction, oil and gas, defense, consumer electronics, and industrial applications. Alcoa is also the world leader in the production and management of primary aluminum, fabricated aluminum, and alumina combined, through its active participation in all major aspects of the industry: technology, mining, refining, smelting, fabricating, and recycling. Total worldwide employment at year end 2015 was approximately 60,000 people.

AVAILABLE INFORMATION

Alcoa is subject to the informational requirements of the Exchange Act and in accordance therewith files reports and other information with the SEC. Information, as of particular dates, concerning Alcoa's directors and officers, their remuneration, the principal holders of Alcoa's securities and any material interest of such persons in transactions with Alcoa is disclosed in proxy statements distributed to shareholders of Alcoa and filed with the SEC. These reports, proxy statements and other information can be inspected and copied at the public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549; 75 Park Place, New York, New York 10007; and 219 South Dearborn Street, Room 204, Chicago, Illinois 60604; and copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549, at prescribed rates. Alcoa's Common Stock is listed on the New York Stock Exchange, and reports, proxy material and other information concerning Alcoa can be inspected at the office of such exchange located at Room 401, 20 Broad Street, New York, New York.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, filed with the SEC by Alcoa, are incorporated by reference herein: Alcoa's Annual Report on Form 10-K for the year ended December 31, 2015 filed on February 19, 2016 and any other such reports.

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

CHELAN COUNTY
www.chelanpud.org

2015 *Annual Report*
Public Utility District No. 1 of Chelan County