EWEB

M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital

FROM: Roger Gray, General Manager and Cathy Bloom, Finance Manager

DATE: March 22, 2013

SUBJECT: 2012 Year-end Audited Financial Statements and Management Letter

---

Attached is a copy of the 2012 Audited Financial Statements and Management Letter. At the next Board meeting our auditors, Moss Adams, will be in attendance to present these statements and report to you. If you have questions regarding the materials, please contact Cathy Bloom at cathy.bloom@eweb.org.

EWEB

Eugene Water & Electric Board

Independent Auditor's Reports

and Financial Statements

December 31, 2012 and 2011

TABLE OF CONTENTS

Eugene Water & Electric Board

Board of Commissioners

Mr. John Simpson, “At Large,” President

Mr. John Brown, Wards 4 & 5, Vice President

Ms. Joann Ernst, Wards 1 & 8, Member

Mr. Rich Cunningham, Wards 6 & 7, Member

Mr. Dick Helgeson, Wards 2 & 3, Member

Officers

Mr. Roger Gray, General Manager, Secretary

Ms. Debra Smith, Assistant Secretary

Ms. Catherine D. Bloom, Treasurer

Ms. Susan Eicher, Assistant Treasurer

This page intentionally left blank

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
Eugene Water & Electric Board

The Board of Directors Commissioners
Eugene Water & Electric Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric System, Water System and Combined Total Systems of Eugene Water & Electric Board (the "Board"), which comprise the individual and combined statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, and 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 these 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 these 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 audits 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2012 and 2011, and the results of its individual and combined operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented 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 in the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements. The Electric System and Water System long-term bonded debt and interest payment requirements (including current portion) schedules and the Electric System and Water System analysis of certain restricted cash and investments for debt service schedules ("supplementary information") are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures in the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Julie Desimone

For Moss Adams LLP
Portland, Oregon
February 22, 2013

The Eugene Water & Electric Board (EWEB or the Board) was founded in 1911, and is the largest publicly owned electric and water utility in Oregon. EWEB has ample power, from generation and purchase contracts, to serve area load. EWEB drinking water is obtained from the McKenzie River, a glacially fed source of the purest water available nationally. At the end of 2012, EWEB had 532 employees serving the Eugene community of approximately 157,000 persons, including the University of Oregon, as well as several surrounding areas outside of the city.

EWEB is an administrative unit of the City of Eugene, Oregon (the City) with responsibilities for operation of the water and electric utilities delegated by City Charter to the publicly elected board of five commissioners. The Board operates electric and water utilities with 88,000 electric and 46,000 water customers.

Financial Policies and Controls

EWEB's financial management system consists of financial policies, financial management strategies, and its internal control structure, including annual budgets and external audits of its financial statements. These policies set standards for rate sufficiency, rate stability, reserve funds, capital investment, and debt management that guide the development of budgets, rates and debt issuance. Taken as a whole, the financial policies are intended to provide financial performance indicators, including debt service coverage and reserve requirements.

The Board has the exclusive right to determine rates and charges for services provided. Planning is guided by ten-year forecasts of financial assets and liabilities, operating activity, and capital asset requirements. These tools are used to identify the impacts of anticipated initiatives and to devise strategies to meet the Board's financial objectives.

Board financial performance is reflected in evaluations of creditworthiness performed by the major credit rating agencies. These are the current underlying ratings:

	Fitch	Moody's	Standard & Poors
Electric System	AA-	Aa3	AA-
Water System	AA+	Aa2	AA

The following analysis focuses on financial position at December 31, 2012 and results of 2012 in comparison to 2011 and 2010. Financial position reflects assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Results are activities during a year leading to net income or what is known for governmental entities as the "change in net position."

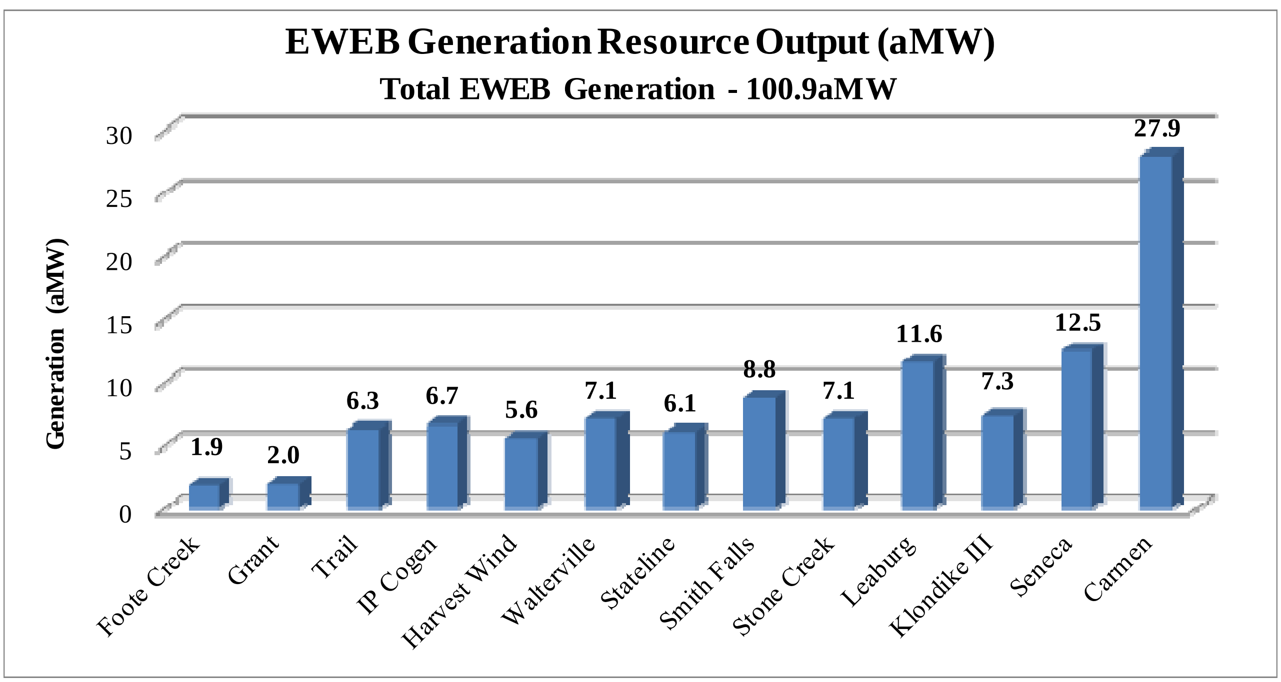
Electric System

The Electric System serves a 234-square mile area, including the City and adjacent suburban areas. Power supply requirements are met primarily from hydroelectric sources, including EWEB owned generation and purchases from Bonneville Power Administration (BPA). Retail sales comprise approximately 75% of revenues with wholesale sales and regulatory credits accounting for 25% of revenues. Heating load and general economic conditions are the primary influences on retail sales.

EWEB sets budgets and power supply forecasts conservatively. The 2012 budget assumed that available water for generation would be 85% of the historical average. Water available for generation in 2012 was 104% of normal (106% and 83% in 2011 and 2010, respectively).

Since the majority of EWEB's power supply comes from hydroelectric generation, financial performance of the Electric Utility is largely influenced by the availability of water for generation and on prices obtainable for excess generation in the wholesale markets. Substantial wholesale sales activity complements sales to retail customers and provides a stabilizing portfolio effect in years when wholesale prices are at or higher than budget. The Board also uses forward contracts and financial instruments that set a "floor" to protect the Board from commodity price risk.

When the amount of water available for generation is at or greater than budget and prices are sufficient, funds can be added to reserves for future uses or used to supplement revenues required for current year operations. Since the recession, wholesale prices have been low. For 2012 and 2011, the Board elected to use draws upon reserves to cover some budgeted operating expenses.



All Generation Resources (in aMW): EWEB 111, BPA 348, Total 407
2012 Load: 280 aMW

In October of 2011 EWEB started a new contract with BPA. Under the new contract EWEB receives approximately 45 aMW less power than under the previous contract. A portion of power is provided as a "Slice of System" (Slice) product. The remainder of BPA power is obtained under a Block product. The Slice product provides a variable amount of power at a fixed price. The Block product provides a fixed amount of power at a fixed price. At critical water conditions (i.e., lowest on historical record) the Block and Slice output, together with EWEB's generation, is sufficient power to serve EWEB's annual retail load, although the timing of generation does not match EWEB loads, necessitating purchases and sales to balance supply and load.

Financial Summary and Analysis

The Electric System's overall financial results for 2012 were less favorable than 2011. The Board continues to feel the impact of the slow recovery from the recession. Wholesale power prices continue to be low while the cost of capital improvements and hydroelectric licensing are increasing. Due to the continuing challenging economic conditions, the Board went through an unprecedented round of cost cutting and budget revisions that included reductions in programs and related expenses as well as in staff. Operations and maintenance costs were reduced by $7.5 million and more than $60.0 million in capital costs were deferred or eliminated. A total of 50 positions were eliminated in the electric utility through early retirements, involuntary terminations and elimination of vacant positions. Most of the savings expected from the reductions in staff are expected to be realized in future years.

As of June 30, 2012, the steam utility, which had been a part of the electric utility system since 1931, ceased operations after a multi-year project to transition customers to other sources of heating. Steam revenues were $1.1 million in 2012, and were $3.4 and $3.7 million in 2011 and 2010, respectively.

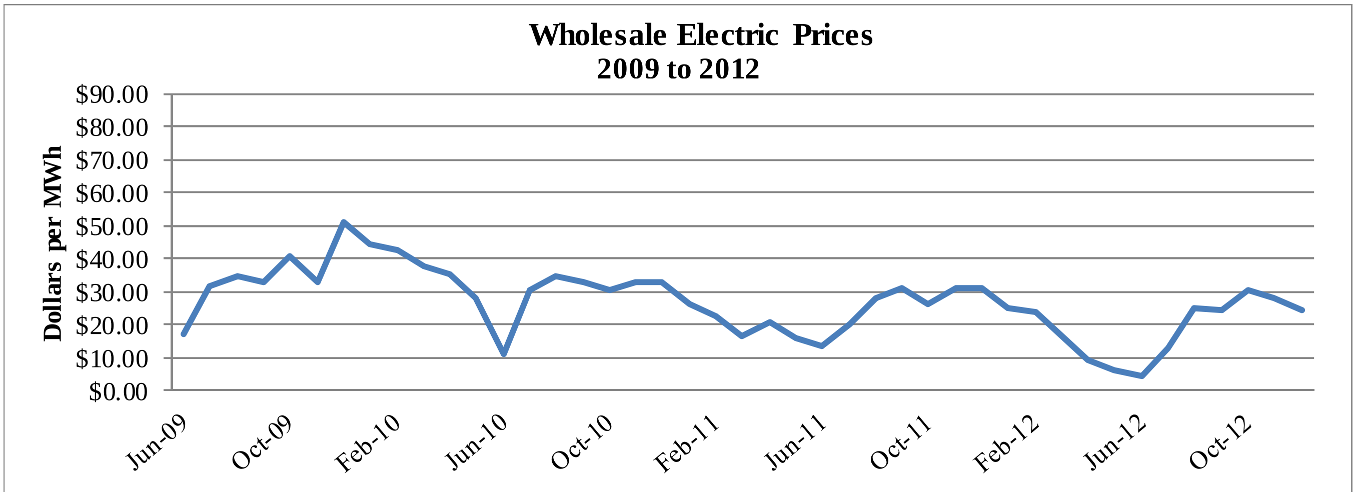
Retail revenues increased by $9.0 million, but the increase was offset by a significant decrease in revenue from wholesale sales of $24.4 million. The decrease in wholesale revenue was driven by both lower market prices and lower generation available to sell in the market; however, continued low prices had a bigger impact than the decreased generation. The primary drivers of lower market prices are the continued weak economy with slow growth in demand and availability of low cost natural gas as an alternative for electrical generation.

Overall the change in net position was $17.2 million, compared to $21.9 in 2011 and $19.2 in 2010. Total assets at December 31, 2012 were approximately $36.8 million more than in 2011 and $67.0 million more than in 2010, due primarily to $40 million in proceeds from the issuance of 2012 bonds. In 2011, bond issuance proceeds were $33.0 million. In 2010 there was $34 million in proceeds from a bank note.

Total liabilities increased by $20.0 million during 2012. New bond issuance added to long-term debt, but most other liabilities decreased. The remaining balance of $6.9 million from Carmen-Smith reserve funds was drawn down. Overall, total net position increased by $17.2 million, which exceeded budget expectations. However, net regulatory credits from the recognition of revenue from Carmen-Smith reserve funds accounted for $6.9 million of the net asset increase.

Wholesale prices for excess power sold into the market did not improve in 2012. Wholesale sales volume decreased during 2012 by 15.9%, and revenue decreased by 27%. In 2011, sales volume had increased 61.8%, but lower prices meant that revenue increased by only 5.8%. The year of 2010 saw the same trend of increase in volume and decrease in revenue, with an increase in volume of 18.3% and decrease in revenue of 5.1%.

All sales, both retail and wholesale, were negatively affected by the economic recession that started in 2008. The graph below shows the overall downward trend in wholesale prices over the past three years as well as the volatility of those prices.



	2009		2010		2011		2012	
Annual Price Average	*$*	*32.77*	*$*	*32.48*	*$*	*24.03*	*$*	*19.14*

Load (local consumption) decreased by 1.3% in 2012 while retail revenues increased in all classes. Residential revenue was up by $2.2 million, and the commercial and industrial categories increased by $8.9 million. Within retail rate classes, residential load was down 5.1% and commercial and industrial consumption were up 1.1%. Rate increases of 5.5% in May of 2012 as well as prior year increases of 3.1% in May 2011 and 5.0% in November 2011 increased retail revenues despite the negligible overall load change. In 2010, there was a May rate increase of 1.9%.

Overall, operating revenue was down $16.8 million from 2011 and up $536 thousand from 2010. The decrease in revenue is attributable to the changes in the wholesale market dynamics and the slow recovery from the recession. Operating revenue included the recognition of previously deferred revenue in the amounts of $6.9 million, $8.4 million and $4.7 million, respectively, for the years 2012, 2011 and 2010. The deferral of revenue is allowed under accounting standards involving utility rate-making environments where revenue from a previous year is used to cover costs incurred in later years, the intent of which is to match the revenue and expenses within a rate and reporting period. In 2007, $20 million of revenue was set aside in a reserve fund to support costs of relicensing the Board's Carmen-Smith Hydroelectric Generation Project.

Operating expenses, overall, were down $15.0 million from 2011, and increased $520 thousand from 2010. Much of the 2012 decrease was due to the cost of power purchased, which decreased $10.3 million from 2011 compared to a decrease of $2.8 million in 2010. The cost of power from BPA remained fairly constant in 2012 while the cost of market purchases decreased due to overall power market factors. Steam and hydraulic generation expenses decreased by $2.3 million from 2011 and $1.5 million from 2010 due to the final closure of the steam plant in 2012. Conservation expenses decreased by $2.3 million from 2011 and $2.0 million from 2010 levels due to cost cutting measures that reduced programs and personnel. Administrative and general expenses increased $931 thousand from 2011 and $3.0 million from 2010, with much of the increase attributable to personnel expenses. Transmission and distribution expense increased by $761 thousand from 2011, and $1.2 million from 2010, primarily due to the expense of system restoration from the March 2012 snowstorm and billable work performed to assist in system restoration in New Jersey after Hurricane Sandy. Other expense categories generally showed insignificant changes compared to 2011 and 2010.

Selected Financial Data
(*in millions of dollars*)

	2012	2011	2010
Operating revenues	$ 246	$ 263	$ 245
Operating expenses	(208)	(223)	(207)
Net operating income	38	40	38
Non-operating revenues	6	8	5
Non-operating expenses	(29)	(30)	(28)
Income before contributed capital	15	18	15
Contributed capital	2	3	4
Change in net position	$ 17	$ 21	$ 19
Total assets	$ 696	$ 659	$ 628
Deferred inflows of resources	$ 2	$ 3	$ 13
Total liabilities	351	330	311
Net position			
Net investment in capital assets	153	167	179
Restricted	17	17	13
Unrestricted	173	142	112
Total net position	343	326	304
Total liabilities and net position	$ 696	$ 659	$ 628

There were some noteworthy changes in the balance sheet for the Electric System during 2012. Restricted cash increased by $12.5 million due to an addition to the debt service reserve and construction funds after issuance of the 2012 bonds. Debt service reserves are deposited in lieu of bond insurance. Construction funds showed a net increase of $12.1 million in funds available for future capital projects. Of the $40.0 million in new bond proceeds, $20.0 million was used to reimburse the Carmen-Smith reserve for costs previously incurred and paid from the Carmen-Smith reserve with the remainder deposited into construction funds. As a result, designated cash and investments increased by $18.4 million. Preliminary investigations increased by $7.6 million as costs relating to the Carmen-Smith relicensing accumulated.

Long-term debt increased by $33.6 million during 2012. The Electric System issued a total of $71.2 million in revenue and refunding bonds in 2012, consisting of $40.0 million of new-money proceeds, with the balance of the issuance used to pay $2.0 million into the debt service reserve, to pay costs of issuance, and to refund the 2002C and 2003 bond issues. Debt payable within one year decreased by $1.0 million due to the bond refunding.

In 2011, the Electric System issued a total of $75.2 million in revenue and refunding bonds, consisting of $33.0 million of new-money proceeds, with the balance of the issuance used to pay $4.5 million into the debt service reserve, to pay costs of issuance, and to refund the 1998A and 2001 B bond issues.

Total plant in service increased $13.8 million in 2012, with significant additions consisting of improvements to the distribution system totaling $5.5 million. Plant additions for 2011 included additions to the Carmen-Smith and Leaburg-Walterville hydro facilities of $11.1 million, and distribution system improvements of $8.9 million. In 2010, plant in service increased by $83 million, primarily due to completion of the Roosevelt Operations Center (ROC) at $74 million, and $13 million in expenditures for transmission and distribution. The ROC was placed in service in November 2010 with an ending cost of $74.0 million. The Water System is repaying the Electric System for a portion of the facility's costs. $57.0 million was recorded in 2010 with general plant for the Electric System. $17.0 million was recorded to general plant for the Water System in 2010 with a corresponding capital lease obligation to the Electric System and lease receivable on the Electric System's statement of net position.

Property held for future use increased by $2.9 million, with the increase attributable to the purchase of a building and land intended to be used as a future site for headquarters operations if the current site is vacated.

Construction work-in-progress at the end of 2012 was $11.8 million, compared to $9.0 million at the end of 2011 and $29.3 million at the end of 2010. Some of the large projects in process as of the end of 2012 were $3.7 million for the metro-ethernet project, $700 thousand for distribution system projects and $1.0 million for information technology projects. A large part of the decrease in 2011 was due to large hydro and distribution system improvements being completed and closed to plant during the year, leaving smaller projects in process at year-end. Among work-in-process at the end of 2011, there was most significantly, $2.9 million for substation modifications and additions. Of the $29.3 million in construction work-in-progress at the end of 2010, approximately $15 million was for hydro facility upgrades, $4 million for work at distribution substations, and $3 million was for transmission projects.

Spending on the relicensing of Carmen-Smith totaled $8.8 million in 2012, $6.2 million in 2011 and $3.5 million 2010, and is included in preliminary investigations under the non-current general asset category of the statement of net position.

An additional $2.6 million was added to non-utility property in 2012 due to the closure of the steam plant and reclassification of headquarters property no longer in use for operations. The non-utility property balance was first established in 2011 when headquarters property that was no longer used for operations was reclassified from plant in service. Non-utility property appears as a component of other non-current assets on the statement of net position.

Capital Assets

(*in millions of dollars*)

	2012	2011	2010
Production and land	$ 206	$ 210	$ 209
Transmission and distribution	326	311	288
General plant	153	150	149
Total utility plant in service	$ 685	$ 671	$ 646

Liabilities

(*in millions of dollars*)

	2012	2011	2010
Current liabilities	$ 39	$ 42	$ 47
Noncurrent liabilities	312	288	264
Total liabilities	$ 351	$ 330	$ 311

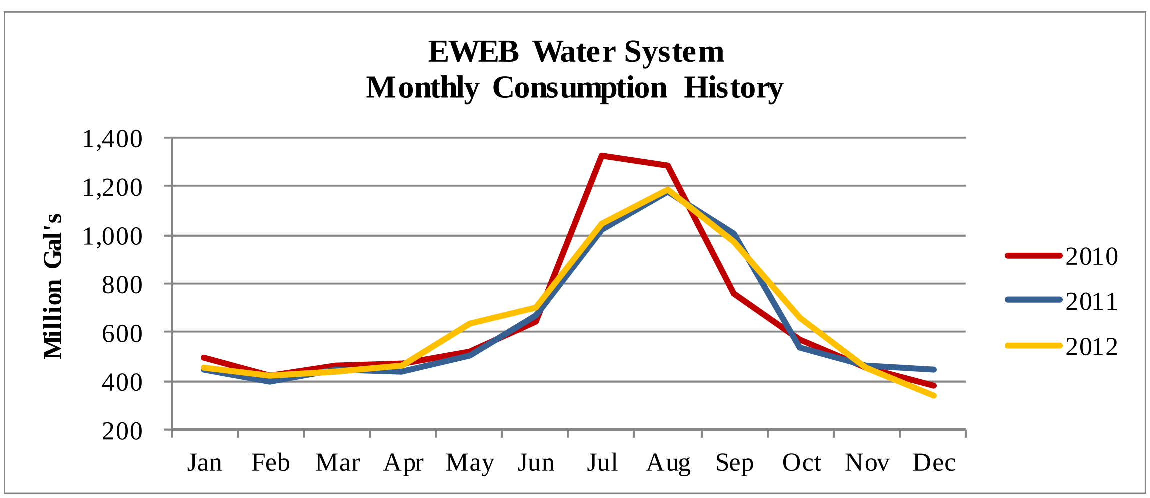
Water System

The Water System provides water to all areas within the city, and two water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, one of the largest treatment plants in Oregon. Water is pumped from the Hayden Bridge Filtration Plant into the distribution system through two large transmission mains. The water distribution system consists of 26 enclosed reservoirs with a combined storage capacity of 94 million gallons, 31 pump stations and approximately 800 miles of distribution mains.

Financial Summary and Analysis

Beginning in 2007 the Board initiated a multi-year effort to position the Water System to address the replacement of aging water infrastructure as many water mains and distribution facilities were installed over 80 years ago and have been experiencing an increasing rate of failure. This effort is to be funded through a multi-year program of retail rate increases directed toward increasing annual capital investment in the system. The rate increases are to be supplemented by additional long-term debt in the early years in order to have a significant effect on system performance. During 2012, the water rate structure was redesigned, with the intention of increasing the fixed charge portion of water rates to a level that will better recover the fixed costs of operations. The new rate structure will begin implementation in 2013 and will result in significant rate increases for residential and commercial water customers.

During 2012, the Water System sold 7.8 billion gallons of water, 8.4% of which was to the water districts. This was approximately 225 million gallons more than the volume sold in 2011 and 35 million gallons less than in 2010. Due to mild weather conditions that predominated through much of the summers of 2012, 2011 and 2010, summer water usage has generally decreased from historical summer patterns. Residential sales revenue was up 8% or $1.0 million, compared to 2011 and 12% or $1.5 million compared to 2010. Combined residential and commercial sales revenue was $1.8 million more than 2011 and $2.4 million more than 2010 because of rate increases in both May 2010 and 2011.



Yearly Consumption (MGal's)

2010: 7,810
2011: 7,549
2012: 7,775

Operating expenses were up 4%, or $840 thousand from 2011 compared to an increase of 18% or $3.2 million from 2010. With the exception of administrative and general expenses, and transmission and distribution expenses, operating expenses for 2012 were close to 2011 and 2010 amounts. Transmission and distribution expenses were comparable to 2011, and were $972 thousand more than 2010. Administrative and general expenses were $673 thousand more than 2011 and $735 thousand more than 2010 due to personnel expenses.

Non-operating revenue for 2012 increased by $117 thousand, due primarily to increases in billable work and grant revenue. Non-operating revenues for 2011 were comparable to 2010. Non-operating expenses for 2012 increased by $377 thousand due to an increase in interest expense from the issuance of bonds in 2011. Non-operating expenses for 2011 increased by $1.3 million due to interest costs resulting from the 2011 bond issue and a full year of interest expense on the Water System's capital lease obligation for the Roosevelt Operations Center.

Contributed capital consisting of system development charges and contributions-in-aid were down by $1.5 million from 2011. At the end of 2011, contributed capital had increased by $1.4 million compared to 2010, reflecting a start of recovery from depressed construction levels over the last several years.

The change in net position for 2012 was $685 thousand less than 2011, compared to a change in 2011 of $1.3 million less than 2010. The changes in net position included rate increases of 5% in 2012, 7.1% in 2011 and 7.3% in 2010. General operating reserves were fully drawn in 2011. What remained in operating reserves were designated funds for self-insurance and water stewardship, leaving little or no cushion in the event of another modest revenue year. The Water System is very cyclical, with a large part of its yearly rate revenues normally generated in the late spring, summer and early fall months. When such months have wet weather and/or moderate temperatures, as has happened in all years since 2010, revenues and cash levels are significantly affected. The Water System has been able to offset decreased consumption in these years with yearly rate increases, which are also used for capital improvements and repairs.

Selected Financial Data
(*in millions of dollars*)

	2012	2011	2010
Operating revenues	$ 26.2	$ 24.3	$ 23.1
Operating expenses	(20.7)	(19.8)	(17.5)
Net operating income	5.5	4.5	5.6
Non-operating revenues	0.5	0.4	0.4
Non-operating expenses	(3.8)	(3.4)	(2.5)
Income before contributed capital	2.2	1.5	3.5
Contributed capital	1.5	3.0	1.6
Change in net position	$ 3.7	$ 4.5	$ 5.1
Total assets	$ 156.8	$ 156.1	$ 134.0
Total liabilities	$ 72.9	$ 76.0	$ 58.4
Net position			
Net investment in capital assets	72.9	68.7	62.2
Restricted	3.9	4.6	4.3
Unrestricted	7.1	6.8	9.1
Total net position	83.9	80.1	75.6
Total liabilities and net position	$ 156.8	$ 156.1	$ 134.0

Total assets and total liabilities were both affected by the Water System's issuance of $17.3 million in bonds in 2011 to finance capital projects that are part of the capital improvement plan. No new debt was issued in 2012 or in 2010. At the end of 2012, there was $12.9 million in construction funds resulting from the bond issue, compared to $15.7 million in construction funds available at 2011 year-end. At the end of 2011, an additional $15.0 million in long-term debt had been added to the balance sheet.

Plant in service increased by $7.5 million during 2012, and construction work-in-process increased by $2.7 million. Additions to plant in the amount of $2.5 million in 2012 were primarily water mains. The increase in construction work-in-progress included work on the Metro Ethernet, a reservoir replacement, and improvements to the filtration plant. Plant in service increased by $22.0 million compared to 2010, while construction work-in-process decreased by $1.1 million. Significant plant additions in 2011 included $1.3 million for reservoir improvements, $1.9 million for Hayden Bridge filtration plant expansion, and $3.7 million in water main additions and improvements. Significant work-in-progress at 2011 year-end included $500 thousand for Hayden Bridge additions, $300 thousand for water reservoir additions, and $1.6 million for water main relocations and improvements. In 2010, plant in service increased by $44.5 million and construction work-in-progress decreased by $16.2 million compared to 2009. Most significant plant activity in 2010 was for the Water System's $17.0 million share of ROC costs and $12.0 million for Hayden Bridge filtration plant expansion.

Capital Assets
(*in millions of dollars*)

	2012	2011	2010
Production and land	$ 54	$ 53	$ 51
Transmission and distribution	126	120	110
General plant	30	29	27
Total utility plant in service	$ 210	$ 202	$ 188

Liabilities
(*in millions of dollars*)

	2012	2011	2010
Current liabilities	$ 5	$ 6	$ 4
Noncurrent liabilities	68	70	54
Total liabilities	$ 73	$ 76	$ 58

The 2007 update to the water system Capital Improvement Plan (CIP) specified a long-term program of renewals and replacements of distribution mains. The CIP projected the need for an additional long-term source of supply and upgrades to the purification system. These capital improvement needs are expected to create upward pressure on retail rates for several years.

Outlook

As the local economy continues to feel the effects of the recession, ratepayers are still struggling economically and have clearly sent the message that they wish to minimize or eliminate future rate increases. The Board is faced with increasing costs from BPA and for renewable resources required to meet renewable standards at the same time that power prices are decreasing and undermining the ability of the utility to supplement rate revenue with wholesale revenue. Additionally, the needed infrastructure improvements and relicensing projects will draw on reserves and debt capacity. The Board is currently pursuing financial initiatives ranging from disposal of generating assets to reprioritizing capital improvements that will improve the financial health of the Board and minimize cost to ratepayers. The 2013 budget and rates were approved with an increase of 4.0% plus the pass through of BPA rate increases for the Electric Utility, and a 20% rate increase for the Water Utility.

A license approval from the Federal Energy Regulatory Commission for the Board’s Carmen-Smith Hydroelectric Project had been anticipated for 2012, but is now expected in 2013. Corresponding construction under the license requirements will begin after license approval, with an anticipated bond issue providing the funds for construction as required.

This page intentionally left blank

STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
ASSETS						
Capital assets						
Utility plant in service	$ 684,999,356	$ 671,221,179	$ 209,614,427	$ 202,097,894	$ 894,613,783	$ 873,319,073
Less accumulated depreciation	336,564,454	323,249,470	89,554,151	84,466,388	426,118,605	407,715,858
Net utility plant in service	348,434,902	347,971,709	120,060,276	117,631,506	468,495,178	465,603,215
Property held for future use	3,435,734	562,088	968,578	968,578	4,404,312	1,530,666
Construction work in progress	11,818,950	9,013,384	5,969,029	3,312,633	17,787,979	12,326,017
Net utility plant	363,689,586	357,547,181	126,997,883	121,912,717	490,687,469	479,459,898
Current assets						
Cash and cash equivalents	11,813,883	5,926,962	1,640,554	1,128,725	13,454,437	7,055,687
Short-term investments	6,845,739	14,458,735	-	-	6,845,739	14,458,735
Restricted cash and investments	55,311,508	42,851,656	17,781,543	19,277,746	73,093,051	62,129,402
Designated cash and investments	65,027,616	59,007,157	2,811,101	4,097,563	67,838,717	63,104,720
Receivables, less allowances	32,395,845	35,878,644	2,268,479	2,080,935	34,664,324	37,959,579
Due from Water System	830,899	817,090	-	-	-	-
Materials and supplies	2,700,210	2,653,190	621,627	618,667	3,321,837	3,271,857
Prepaids	3,472,853	2,904,884	505,761	365,137	3,978,614	3,270,021
Option premiums short-term	1,250,280	2,461,168	-	-	1,250,280	2,461,168
Total current assets	179,648,833	166,959,486	25,629,065	27,568,773	204,446,999	193,711,169
Non-current assets						
Investments - restricted	3,015,610	3,099,260	-	2,035,020	3,015,610	5,134,280
Investments - designated	17,946,963	5,603,865	-	-	17,946,963	5,603,865
Investments - unrestricted	3,138,693	1,019,000	-	-	3,138,693	1,019,000
Prepaid retirement obligation	12,904,900	13,849,160	2,832,792	3,040,069	15,737,692	16,889,229
Receivables, conservation and other	4,975,404	4,661,825	-	5,133	4,975,404	4,666,958
Due from Water System	19,212,749	19,818,081	-	-	-	-
Investment in WGA	1,802,851	753,374	-	-	1,802,851	753,374
Investment in Harvest Wind	27,304,913	28,387,913	-	-	27,304,913	28,387,913
Preliminary investigations	37,057,159	29,436,700	-	-	37,057,159	29,436,700
Other assets	23,188,616	23,353,490	1,380,993	1,532,284	24,569,609	24,885,774
Total non-current assets	150,547,858	129,982,668	4,213,785	6,612,506	135,548,894	116,777,093
DEFERRED OUTFLOWS OF RESOURCES						
Accumulated decrease in fair value of hedging derivatives	2,431,088	4,984,922	-	-	2,431,088	4,984,922
Total assets and deferred outflows of resources	$ 696,317,365	$ 659,474,257	$ 156,840,733	$ 156,093,996	$ 833,114,450	$ 794,933,082

Note: Inter-system receivables and payables are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
LIABILITIES						
Current liabilities						
Payables	$ 21,604,137	$ 22,659,044	$ 1,130,210	$ 2,322,296	$ 22,734,347	$ 24,981,340
Accrued payroll and benefits	3,688,205	4,183,139	548,229	560,975	4,236,434	4,744,114
Interest payable	245,821	250,538	-	-	245,821	250,538
Note payable	1,186,582	1,132,386	-	-	1,186,582	1,132,386
Due to Electric System	-	-	830,899	817,090	-	-
Payable from restricted assets						
Accrued interest on long-term debt	4,623,160	4,920,986	918,112	964,693	5,541,272	5,885,679
Long-term debt due within one year	7,400,000	8,420,000	1,325,000	1,270,000	8,725,000	9,690,000
Total current liabilities	38,747,905	41,566,093	4,752,450	5,935,054	42,669,456	46,684,057
Non-current liabilities						
Long-term debt	306,717,433	273,130,600	48,598,013	49,857,110	355,315,446	322,987,710
Due to Electric System	-	-	19,212,749	19,818,081	-	-
Other liabilities	5,131,213	8,908,264	384,123	377,085	5,515,336	9,285,349
Regulatory liability - Carmen Smith	-	6,944,050	-	-	-	6,944,050
Total liabilities	350,596,551	330,549,007	72,947,335	75,987,330	403,500,238	385,901,166
DEFERRED INFLOWS OF RESOURCES						
Accumulated increase in fair value of hedging derivatives	2,625,350	2,988,028	-	-	2,625,350	2,988,028
NET POSITION						
Net investment in capital assets	152,834,356	166,802,145	72,895,012	68,723,392	225,729,368	235,525,537
Restricted	17,459,188	16,608,839	3,900,652	4,610,974	21,359,840	21,219,813
Unrestricted	172,801,920	142,526,238	7,097,734	6,772,300	179,899,654	149,298,538
Total net position	343,095,464	325,937,222	83,893,398	80,106,666	426,988,862	406,043,888
Total liabilities, deferred inflows of resources and net position	$ 696,317,365	$ 659,474,257	$ 156,840,733	$ 156,093,996	$ 833,114,450	$ 794,933,082

Note: Inter-system receivables and payables are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
Residential	$ 90,784,575	$ 88,541,584	$ 13,924,614	$ 12,906,833	$ 104,709,189	$ 101,448,417
Commercial and industrial	94,154,095	87,377,642	11,513,438	10,751,584	105,667,533	98,129,226
Sales for resale and other	54,344,115	78,769,510	782,540	703,008	55,126,655	79,472,518
Regulatory credits - net	6,944,050	8,377,458	-	-	6,944,050	8,377,458
Operating revenues	246,226,835	263,066,194	26,220,592	24,361,425	272,447,427	287,427,619
Purchased power	101,960,527	112,273,708	-	-	101,960,527	112,273,708
System control	6,623,647	6,631,846	-	-	6,623,647	6,631,846
Wheeling	12,246,671	12,309,123	-	-	12,246,671	12,309,123
Steam and hydraulic generation	11,336,093	13,622,711	-	-	11,336,093	13,622,711
Transmission and distribution	18,721,597	17,960,947	7,063,149	7,110,844	25,784,746	25,071,791
Source of supply, pumping and purification	-	-	3,118,231	3,077,816	3,118,231	3,077,816
Customer accounting	9,605,099	10,107,118	1,164,333	1,240,979	10,769,432	11,348,097
Conservation expenses	6,890,817	9,185,095	323,198	382,746	7,214,015	9,567,841
Administrative and general	23,800,403	22,869,289	4,046,176	3,373,067	27,846,579	26,242,356
Depreciation on utility plant	16,690,026	17,954,546	4,973,011	4,662,285	21,663,037	22,616,831
Operating expenses	207,874,880	222,914,383	20,688,098	19,847,737	228,562,978	242,762,120
Net operating income	38,351,955	40,151,811	5,532,494	4,513,688	43,884,449	44,665,499
Investment earnings	229,790	932,114	78,472	78,580	308,262	1,010,694
Interest earnings, Water	1,177,806	1,197,175	-	-	-	-
Allowance for funds used during construction	51,751	90,922	26,659	34,187	78,410	125,109
Other revenue	4,694,171	5,922,530	434,850	310,650	5,129,021	6,233,180
Non-operating revenues	6,153,518	8,142,741	539,981	423,417	5,515,693	7,368,983

Note: Inter-system interest earnings and expenses are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
Contributions in lieu of taxes	$ 13,898,752	$ 13,624,591	$ -	$ -	$ 13,898,752	$ 13,624,591
Other revenue deductions	3,038,927	3,113,291	243,532	262,303	3,282,459	3,375,594
Interest expense and related amortization	12,220,632	13,050,882	2,411,080	2,041,333	14,631,712	15,092,215
Interest expense, Electric	-	-	1,177,806	1,197,175	-	-
Allowance for borrowed funds used during construction	(48,834)	(81,619)	(15,500)	(21,300)	(64,334)	(102,919)
Non-operating expenses	29,109,477	29,707,145	3,816,918	3,479,511	31,748,589	31,989,481
Income before capital contributions	15,395,996	18,587,407	2,255,557	1,457,594	17,651,553	20,045,001
Contributions in aid of construction	1,693,346	2,833,510	648,871	757,114	2,342,217	3,590,624
Contributed plant assets	68,900	469,248	84,239	1,480,306	153,139	1,949,554
Capital grants	-	51,844	-	-	-	51,844
System development charges	-	-	798,065	776,338	798,065	776,338
Capital contributions	1,762,246	3,354,602	1,531,175	3,013,758	3,293,421	6,368,360
Change in net position	17,158,242	21,942,009	3,786,732	4,471,352	20,944,974	26,413,361
Total net position at beginning of year	325,937,222	303,995,213	80,106,666	75,635,314	406,043,888	379,630,527
Total net position at end of year	$ 343,095,464	$ 325,937,222	$ 83,893,398	$ 80,106,666	$ 426,988,862	$ 406,043,888

Note: Inter-system interest earnings and expenses are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 242,690,193	$ 251,189,120	$ 25,985,487	$ 24,188,201	$ 268,675,680	$ 275,377,321
Other receipts	1,833,042	2,936,684	401,860	272,340	2,234,902	3,209,024
Power purchases	(101,294,772)	(106,449,122)	-	-	(101,294,772)	(106,449,122)
Payments to employees	(37,414,479)	(33,917,209)	(9,242,632)	(8,690,022)	(46,657,111)	(42,607,231)
Payments to suppliers	(52,942,294)	(61,004,167)	(7,292,031)	(5,469,731)	(60,234,325)	(66,473,898)
Contributions in lieu of taxes	(12,675,454)	(12,182,429)	-	-	(12,675,454)	(12,182,429)
Net cash from operating activities	40,196,236	40,572,877	9,852,684	10,300,788	50,048,920	50,873,665
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(197,473,947)	(214,702,277)	(9,542,606)	(30,392,148)	(207,016,553)	(245,094,425)
Proceeds from sale and maturities of investments	181,312,921	186,104,476	16,582,548	17,084,946	197,895,469	203,189,422
Interest on investments	2,349,714	2,407,233	297,919	(104,860)	2,647,633	2,302,373
Additions to equity investment in Harvest Wind	-	(336,188)	-	-	-	(336,188)
Distributions from equity investment in Harvest Wind	1,694,000	1,875,217	-	-	1,694,000	1,875,217
Distributions from equity investment in WGA	400,000	273,695	-	-	400,000	273,695
Net cash from investing activities	(11,717,312)	(24,377,844)	7,337,861	(13,412,062)	(4,379,451)	(37,789,906)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Note receipts/(payments) to Electric from Water	207,277	207,277	(207,277)	(207,277)	-	-
Interest receipts/(payments) to Electric from Water	1,179,319	1,129,432	(1,179,319)	(1,129,432)	-	-
Lease receipts/(payments) to Electric from Water	382,733	328,345	(382,733)	(328,345)	-	-
Principal payments	(1,132,386)	(1,080,666)	-	-	(1,132,386)	(1,080,666)
Interest payments	(1,510,536)	(1,450,139)	-	-	(1,510,536)	(1,450,139)
Net cash from non-capital financing activities	(873,593)	(865,751)	(1,769,329)	(1,665,054)	(2,642,922)	(2,530,805)

Note: Inter-system note, lease and interest receipts and payments are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of bonds	$ 78,560,355	$ 80,454,661	$ -	$ 17,520,454	$ 78,560,355	$ 97,975,115
Refunding of bonds	(35,920,000)	(43,090,000)	-	-	(35,920,000)	(43,090,000)
Principal payments	(8,420,000)	(10,935,000)	(1,270,000)	(1,225,000)	(9,690,000)	(12,160,000)
Bond issuance costs	(621,735)	(700,871)	-	(151,423)	(621,735)	(852,294)
Additions to plant and non-utility property, net	(25,448,205)	(24,061,646)	(10,453,902)	(11,153,295)	(35,902,107)	(35,214,941)
Interest payments	(11,815,452)	(11,127,155)	(2,315,263)	(1,589,409)	(14,130,715)	(12,716,564)
Additions to preliminary surveys and other	(8,976,682)	(6,730,015)	-	-	(8,976,682)	(6,730,015)
Capital contributions	1,762,246	3,354,602	1,519,538	1,561,546	3,281,784	4,916,148
Net cash from capital and related financing activities	(10,879,473)	(12,835,424)	(12,519,627)	4,962,873	(23,399,100)	(7,872,551)
CHANGE IN CASH AND CASH EQUIVALENTS	16,725,858	2,493,858	2,901,589	186,545	19,627,447	2,680,403
CASH AND CASH EQUIVALENTS, beginning of year	28,787,762	26,293,904	8,975,210	8,788,665	37,762,972	35,082,569
CASH AND CASH EQUIVALENTS, end of year Including cash and cash equivalents restricted or designated: $33,699,737 and $10,236,245 ($22,860,800 and $7,846,485 in 2011) for Electric and Water, respectively	$ 45,513,620	$ 28,787,762	$ 11,876,799	$ 8,975,210	$ 57,390,419	$ 37,762,972

NON-CASH CAPITAL ACTIVITY:

In 2012, plant assets contributed by developers were $68,900 for the electric system, and $84,239 for the water system ($469,248 for the electric system, and $1,480,306 for the water system in 2011)

Note: Inter-system note, lease and interest receipts and payments are eliminated in the total systems columns.

See accompanying notes.

Continued

STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	Electric System		Water System		Total System	
	2012	2011	2012	2011	2012	2011
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Net operating income	$ 38,351,955	$ 40,151,811	$ 5,532,494	$ 4,513,688	$ 43,884,449	$ 44,665,499
Adjustments to reconcile net operating income to net cash from operating activities						
Depreciation, including allocated	17,811,307	19,019,374	5,230,617	4,894,960	23,041,924	23,914,334
Surplus revenue payments	(12,675,454)	(12,182,429)	-	-	(12,675,454)	(12,182,429)
Other revenue	4,164,694	5,917,218	401,109	281,460	4,565,803	6,198,678
Other revenue deductions	(119,351)	(116,989)	(231,891)	(231,518)	(351,242)	(348,507)
(Income) loss from Harvest Wind	(611,000)	(907,718)	-	-	(611,000)	(907,718)
(Income) from WGA	(1,449,478)	(1,459,908)	-	-	(1,449,478)	(1,459,908)
(Increase) decrease in assets						
Receivables	3,482,798	(3,183,077)	(234,355)	(182,344)	3,248,443	(3,365,421)
Materials and supplies	(47,020)	(220,166)	(2,960)	(59,289)	(49,980)	(279,455)
Prepayments and special deposits	642,919	1,141,301	(140,624)	229,591	502,295	1,370,892
Conservation loans, net	(254,918)	918,477	-	(37,096)	(254,918)	881,381
Long-term receivables, other	199,156	(1,308,712)	-	-	199,156	(1,308,712)
Prepaid retirement obligation	-	-	207,277	207,277	207,277	207,277
Other assets	5,627,398	6,227,109	70,759	17,069	5,698,157	6,244,178
Increase (decrease) in liabilities						
Accounts payable, accrued payroll and benefits	(2,560,027)	(19,842)	(914,178)	678,863	(3,474,205)	659,021
Deferred revenue	(6,944,050)	(8,377,458)	-	-	(6,944,050)	(8,377,458)
Other liabilities	(5,422,693)	(5,026,114)	(65,564)	(11,873)	(5,488,257)	(5,037,987)
Net cash from operating activities	$ 40,196,236	$ 40,572,877	$ 9,852,684	$ 10,300,788	$ 50,048,920	$ 50,873,665

See accompanying notes.

This page intentionally left blank

Note 1 – Summary of significant accounting policies

Reporting Entity
Eugene Water & Electric Board (Board or EWEB) is an administrative unit of the City of Eugene, Oregon. However, as established by the Governmental Accounting Standards Board's (GASB) definition of a reporting entity, the Board is considered a primary government and is not a component unit of another entity, nor are there any component units of which the Board is financially accountable. The Board is responsible for the ownership and operation of the Electric and Water Systems, and the basic financial statements include these two Systems.

The Board provides energy and water service to residential, commercial and industrial customers located in a 234 square mile area, including the City of Eugene and adjacent suburban areas. The Board has the authority to fix rates and charges. In order to secure power resources, the Board has taken ownership of various generation facilities. In addition, the Board has entered into joint ventures, whereby it has taken an equity position in various generation facilities. The operations and sale of energy generated from the Board's relationship with each of the facilities is subject to certain risks. Operations are contingent on various factors, such as regulation, river flow levels, licensing agreements and weather patterns. The Board is subject to various forms of regulation under federal, state and local laws and is subject to various Federal Energy Regulatory Commission (FERC) regulations. Laws and regulations are subject to change and may have a direct impact on the operations of the Board.

Eliminations
Amounts receivable and payable between the Electric and Water Systems and related interest earnings and expense are eliminated in the Total Systems columns of the financial statements (see Note 11).

Method of Accounting
The Board maintains its accounting records in accordance with accounting principles generally accepted in the United States of America. The Board applies accounting and reporting standards of the GASB, exclusively. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Effective January 1, 2012, the Board adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The Statement provides guidance for reporting transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. Some of those transactions are not considered to meet the definition of assets or liabilities, and therefore require two new categories (Deferred Outflows of Resources and Deferred Inflows of Resources) in a statement of financial position and renaming of that statement from *Statement of Net Assets* (representing the difference between assets and liabilities) to *Statement of Net Position* (representing the difference between assets and deferred outflows less liabilities and deferred inflows of resources).

Implementation of Statement No. 63 resulted in reclassification of the Board's unrealized gains and losses on effective derivatives at December 31 for the two years presented in its statements of financial position and renaming of that statement from Statements of Net Assets to Statements of Net Position. There was no effect on income for 2012 or net position at the beginning of 2012.

Use of 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 amounts 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.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. Such reclassifications had no effect on previous net revenue or net position.

Utility Plant in Service and Depreciation
Utility plant is stated at original cost. Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e. interest) used during construction. Additions, renewals and betterments with a minimum cost of $5,000 or greater per item are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property and any removal cost is charged to accumulated depreciation when property is retired. The estimated useful lives of assets are those used commonly in the utility industry or they are based on the Board’s experience with similar assets. Depreciation is computed using straight-line group rates.

Cash Equivalents
For purposes of these statements, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. The Board considers money market accounts and government investment pool holdings to be cash equivalents.

Fair Value of Financial Instruments
The carrying amounts of current assets, including unrestricted, designated and restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the Board’s investments and debt are estimated based on the quoted market prices for the same or similar issues.

(Note 1 – Summary of significant accounting policies, continued)

Restricted Assets
Cash and investments which are restricted by provisions of bond resolutions and agreements with other parties are identified as restricted assets. When the restricted assets are expendable within the terms of the agreements, it is the Board's policy to spend restricted resources first, then unrestricted resources as needed.

Materials and Supplies
Materials and supplies provide for additions and repairs to utility plant and are stated at average cost.

Option Premiums
Premiums on option transactions are recorded as assets and amortized as each period of exercise expires over the term of each option.

Prepaid Retirement Obligation
In 2001, the Electric System issued $30 million in bonds to pay down a portion of the Board's unfunded actuarial liability for the State of Oregon Public Employees Retirement System. The Water System makes payments to the Electric System for its estimated share of the liability paid down, and both Systems treat the transaction as a prepayment amortized over the life of the bonds.

Preliminary Investigations
At December 31, 2012, the Electric System had $37.1 million in deferred costs for the preliminary investigation of projects it believes will be viable in the future. Most of the balance was for preconstruction relicensing costs of the Carmen-Smith Project ($29.4 million at December 31, 2011).

Fair Value of Renewable Energy Certificates
Renewable Energy Certificates (RECs) are tradable environmental attributes. Each certificate represents 1 megawatt hour of generation from a renewable generation resource. The Board records the fair market value of its portfolio of RECs as an other asset and an offsetting other liability. Fair value represents prices quoted by brokers.

Regulatory Assets & Liabilities
The Board has deferred revenues and costs to be charged to future periods matching the time periods when the revenues and expenses are included in rates.

- **Conservation Assets**
  Conservation assets for the Electric System represent installations of energy saving measures at the properties of its customers. The deferred balance is reduced as costs are recovered, which for the most part represent debt service payments included in rates for related borrowing. Conservation assets are amortized as other revenue deductions on the statements of revenues, expenses and changes in net assets.

- **Derivatives at Fair Value**
  Derivatives consist of electric and natural gas swap and option contracts. Unrealized gains and losses are marked to market using values quoted by trading exchanges or, for options, the Black method, and discounted to their present value.

- **Sick Leave**
  Employees achieving length of service and age requirements are paid 25% of their accrued sick leave upon retirement. The estimated liability for all future retirements is included in equivalent amounts with Other Assets and Other Liabilities. The obligation is expensed as Administrative and General costs as payments occur. Retail rates include an estimate of these payments on an annual basis.

- **Net Pension Obligation**
  A net pension obligation for the Board's supplemental retirement plan is included in equivalent amounts with Other Assets and Other Liabilities.

- **Accreted Interest on Capital Appreciation Bonds**
  Capital appreciation bonds are issued with a deep discount payable when the bonds mature. Interest accrued, but not yet paid, is included in long-term debt. Retail rates include interest costs as they become payable on a cash basis.

- **Regulatory Liability – Carmen Smith**
  Revenues obtained through current rates attributable to significant associated costs to be incurred in the future, are deferred (a decrease in operating revenue) and later recognized (an increase to operating revenue) during the periods when the associated costs are incurred. At December 31, 2006, $20 million in revenue for the relicensing of Carmen-Smith was deferred to future periods when those costs would be incurred. For the year ended December 31, 2012, $6.9 million was recognized as revenue ($8.4 million for 2011) and included with "Regulatory credits – net."

(Note 1 – Summary of significant accounting policies, continued)

Debt Refundings
For current and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter. These amounts are reported as a component of the new debt liability on the statements of net position.

Net Position
Net position consists of:

- **Net investment in capital assets**
  Net investment in capital assets is capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted**
  Restricted components of net position have constraints placed on their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted**
  The unrestricted component of net position includes remaining amounts that are neither "restricted" nor "net investment in capital assets.”

Net position was as follows:

	2012		2011	
	Electric System	Water System	Electric System	Water System
Net investment in capital assets	$ 152,834,356	$ 72,895,012	$ 166,802,145	$ 68,723,392
Restricted for:				
Capital projects	149,541	-	111,612	-
Customer deposits	1,845,763	295	2,487,280	-
Customer care program	1,126,397	-	923,180	-
Early retiree reinsurance program	1,447	-	212,785	-
Harvest Wind escrow	2,208,608	-	2,203,685	-
System development charges	-	977,955	-	1,692,004
Debt service	12,127,432	2,922,402	10,670,297	2,918,970
	17,459,188	3,900,652	16,608,839	4,610,974
Unrestricted	172,801,920	7,097,734	142,526,238	6,772,300
	$ 343,095,464	$ 83,893,398	$ 325,937,222	$ 80,106,666

Operating Revenue

Operating revenues are recorded on the basis of service delivered. Revenues are derived primarily from the sale and transmission of electricity and from the sale of water. Revenue is recognized when the power or water is delivered to and received by the customer. Approximately 10% of 2012 Electric System's retail revenues were the result of sales to one industrial customer (8% of retail sales were the result of sales to one customer in 2011). Estimated revenues are accrued for power and water deliveries not yet billed to customers from meter reading dates prior to month end (unbilled revenue).

The credit practices of the Board require an evaluation of each new customer's credit worthiness on a case-by-case basis. At the discretion of management, a deposit may be obtained from the customer. Concentrations of credit risk with respect to receivables for residential customers are limited due to the large number of customers comprising the Board's customer base. Credit losses have been within management's expectations. Similar to its evaluation of residential, commercial and industrial customers' credit reviews, the Board continually evaluates its wholesale power customers (sales for resale revenue) by reviewing credit ratings and financial credit worthiness of existing and new wholesale customers.

Receivables are recorded net of the allowance for doubtful accounts. The allowance is determined by an examination of write off experience in the preceding five years, and consideration of other influences as appropriate. Total amounts written off for the year ended December 31, 2012 were $604,000 ($388,000 for 2011) for the Electric System, and $60,000 ($35,000 for 2011) for the Water System.

(Note 1 – Summary of significant accounting policies, continued)

Contributions in Lieu of Taxes
In accordance with ORS 225.270, the Electric System makes contributions in lieu of tax (CILT) payments to the City of Eugene at the rate of 6% of retail sales and 17% of net margin on certain wholesale sales. The Board makes CILT payments to the City of Springfield at the rate of 3% of retail sales for customers that lie within the boundaries of the City of Springfield. Total contributions in lieu of taxes expense for the year ended December 31, 2012 was $13.9 million ($13.6 million for 2011).

Environmental Expenses
Fish and plant habitat enhancements, as well as pollution prevention improvements are expensed or capitalized depending upon their future economic benefits. Most pollution remediation outlays, legal obligations to address existing pollution, do not qualify for capitalization and are accrued as liabilities and expenses according to the estimated remediation costs on a current cost basis (rather than present value of future costs).

Note 2 – Power Risk Management

The Board's Power Risk Management Guidelines set forth policies, limits and control systems governing power and fuel purchase and sales activities for the Electric System. The objectives of such policies are to maximize benefits to the customers from wholesale activities while minimizing the risk that wholesale activities will adversely affect retail prices. The Board does not enter into contracts for speculative purposes. During periods when resources are in excess of retail load, the Board may sell excess capacity into the wholesale markets, and is exposed to commodity price risk. The Board enters into forward contracts intended to manage the price risk associated with power sales in the wholesale market.

Derivative Financial Instruments
In accordance with policy guidelines, the Board utilizes derivative instruments to minimize its exposure to commodity price risk. Hedging derivatives are reported on the statement of net position at fair value. The fair value of options and swaptions are determined using the Black formula. The fair value of financial swaps is determined by comparing the contract prices with the forecasted market prices.

All potential hedging derivatives were evaluated for effectiveness using the consistent critical terms method. A derivative instrument is effective under criteria for consistent critical terms when the significant terms of the hedging instrument and the hedgeable item are alike. The significant terms for hedging derivatives are the time period, quantity, price index, and point of delivery.

As of December 31, 2012, hedging derivatives with a fair value of $2.6 million were reported as an other asset and deferred inflow. Hedging derivatives with a fair value of $2.4 million were reported as other liabilities and deferred outflow. Changes in fair value are reported as an increase in other assets or other liabilities and deferred inflows or outflows of resources until the time of settlement. When hedging derivatives settle, the expense is recorded as either purchased power or wholesale sales.

Investment Derivatives

Hedging derivatives that are found through testing to be ineffective are classified as investment derivatives. At that time, the fair value, including any fair value changes that had previously been deferred on the balance sheet, are recorded as investment revenue and a deferred inflow or outflow. ($347,000) was recognized as investment revenue from derivatives in 2012 and $160,000 was recognized as investment revenue from derivatives in 2011.

	Options and Swaps			
	Hedging Derivatives		Investment Derivatives	
	2012	2011	2012	2011
Notional value	$ 10,673,680	$ 2,796,622	$ -	$ 3,204,064
Fair value - asset	$ 2,625,350	$ 2,988,028	$ -	$ 302,800
Fair value - liability	$ 2,431,088	$ 4,984,922	$ -	$ 13,873
Reference rates	Mid-C index	Mid-C index		Mid-C index
Dates entered into	7/11-12/12	7/10 through 12/11		11/10 through 7/11
Dates of maturity	1/13-12/15	1/12 through 12/13		1/11 through 4/12
Cash paid	$ 1,250,280	$ 2,804,008	$ -	$ 161,200

Credit Risk

The Board enters into forward purchase and sale contracts for electricity and natural gas with utilities and marketers. Through this participation, the utility is exposed to credit risk related to the possibility of non-performance by its counterparties. To limit the risk of counterparty default or non-performance, the Board uses an evaluation process that assigns an internal measure of credit worthiness to the Board's counterparties and sets limits to the dollar value of business that can be transacted with counterparties. The Board generally chooses not to do business with counterparties with credit risk ratings that would give rise to cash collateral requirements. On a case-by-case basis, the Board may require letters of credit or other assurances in lieu of cash collateral. Other assurances may include accelerated invoicing or pre-payment. Where appropriate, the Board enters into master netting agreements with counterparties. The Board's counterparties are concentrated in the wholesale energy marketing and trading sector. Maximum possible loss is $1.8 million. Counterparty credit ratings range from A2 through Aa3

Termination Risk

Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years 2012 and 2011, there were no terminations.

Note 3 – Utility plant

The major classifications and depreciable lives of utility plant in service are as follows.

Electric Utility Plant

	Depreciable Life-Years	Balance at December 31, 2011	Increases	Decreases	Balance at December 31, 2012
Land	n/a	$ 7,632,236	$ 102,338	$ -	$ 7,734,574
Intangible assets	n/a	173,408	117,235	-	290,643
Steam production	10-25	14,593,285	-	(4,419,556)	10,173,729
Hydro production	36-50	174,435,696	832,150	-	175,267,846
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	74,115,173	3,458,065	-	77,573,238
Distribution	28.5	237,271,835	11,613,069	(746,882)	248,138,022
General plant	3-50	149,912,364	3,758,202	(936,444)	152,734,122
Total utility plant in service		671,221,179	19,881,059	(6,102,882)	684,999,356
Accumulated depreciation		(323,249,470)	(20,045,970)	6,730,986	(336,564,454)
Plant not subject to depreciation:					
Property held for future use		562,088	2,873,646	-	3,435,734
Construction work in progress		9,013,384	20,762,299	(17,956,733)	11,818,950
Net utility plant		$ 357,547,181	$ 23,471,034	$ (17,328,629)	$ 363,689,586

	Depreciable Life-Years	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Land	n/a	$ 7,198,721	$ 860,606	$ (427,091)	$ 7,632,236
Intangible assets	n/a	19,806	153,602	-	173,408
Steam production	10-25	20,500,105	-	(5,906,820)	14,593,285
Hydro production	36-50	166,119,658	8,316,038	-	174,435,696
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	63,325,301	10,789,872	-	74,115,173
Distribution	28.5	224,946,111	12,744,012	(418,288)	237,271,835
General plant	3-50	150,622,723	8,372,265	(9,082,624)	149,912,364
Total utility plant in service		645,819,607	41,236,395	(15,834,823)	671,221,179
Accumulated depreciation		(314,644,968)	(19,031,957)	10,427,455	(323,249,470)
Plant not subject to depreciation:					
Property held for future use		789,172	-	(227,084)	562,088
Construction work in progress		29,323,065	18,466,139	(38,775,820)	9,013,384
Net utility plant		$ 361,286,876	$ 40,670,577	$ (44,410,272)	$ 357,547,181

Water Utility Plant

	Depreciable Life-Years	Balance at December 31, 2011	Increases	Decreases	Balance at December 31, 2012
Land	n/a	$ 1,468,012	$ 6,429	$ -	$ 1,474,441
Structure	50	41,198,563	877,718	-	42,076,281
Pumping	20	9,175,854	281,322	-	9,457,176
Purification	25	1,252,909	-	-	1,252,909
Transmission	28.5	17,344,406	51,182	-	17,395,588
Reservoirs	50	23,848,706	-	-	23,848,706
Distribution	28.5	59,399,913	4,643,099	(68,451)	63,974,561
Services, meters and hydrants	20-28.5	19,281,257	916,499	-	20,197,756
General plant	3-50	29,128,274	871,642	(62,907)	29,937,009
Total utility plant in service		202,097,894	7,647,891	(131,358)	209,614,427
Accumulated depreciation		(84,466,388)	(5,230,636)	142,873	(89,554,151)
Plant not subject to depreciation:					
Property held for future use		968,578	-	-	968,578
Construction work in progress		3,312,633	9,745,777	(7,089,381)	5,969,029
Net utility plant		$ 121,912,717	$ 12,163,032	$ (7,077,866)	$ 126,997,883

	Depreciable Life-Years	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Land	n/a	$ 1,475,145	$ 21,576	$ (28,709)	$ 1,468,012
Structure	50	39,606,243	1,630,299	(37,979)	41,198,563
Pumping	20	8,915,963	259,891	-	9,175,854
Purification	25	1,252,909	-	-	1,252,909
Transmission	28.5	17,279,063	65,343	-	17,344,406
Reservoirs	50	22,416,702	1,432,004	-	23,848,706
Distribution	28.5	52,267,997	7,131,916	-	59,399,913
Services, meters and hydrants	20-28.5	17,048,320	2,339,393	(106,456)	19,281,257
General plant	3-50	27,395,094	2,016,343	(283,163)	29,128,274
Total utility plant in service		187,657,436	14,896,765	(456,307)	202,097,894
Accumulated depreciation		(79,854,069)	(4,895,224)	282,905	(84,466,388)
Plant not subject to depreciation:					
Property held for future use		989,578	-	(21,000)	968,578
Construction work in progress		4,897,948	10,913,205	(12,498,520)	3,312,633
Net utility plant		$ 113,690,893	$ 20,914,746	$ (12,692,922)	$ 121,912,717

(Note 3 – Utility plant, continued)

Capital Contributions
Contributions in Aid of Construction and System Development Charges are paid by developers and customers to cover the cost of new electric and water infrastructure (capital assets). When developers install and cover the costs of the infrastructure directly, those assets are referred to as Contributed Plant Assets.

Note 4 – Cash and investments

The Board maintains cash and investments in several fund accounts in accordance with bond resolutions and Board authorization. Descriptions of these fund account types are as follows:

Restricted Cash and Investments

- **Customer Deposits and Other**
  Used to account for 1) deposits collected from retail and wholesale power customers and held for future refund or application to customer account balances, 2) donations to the Customer Care Program, and 3) receipt of funds under the Early Retiree Reinsurance Program (ERRP) established by the Federal Patient Protection and Affordable Care Act.

- **Harvest Wind Escrow Accounts**
  Funds include amounts held in escrow and related to EWEB's investment in the Harvest Wind Project, consisting of funds held back and deposited to escrow from the receipt of Federal energy grant funds in 2010, and a deposit in lieu of letter of credit with regard to the Project's transmission contract with Klickitat PUD.

- **Construction Funds**
  Used to account for legally restricted cash and investments for the purpose of construction of capital projects. Funds include proceeds from the issuance of bonds and notes and contributions from customers or contractors for construction projects.

- **System Development Charge Reserves**
  Used to account for charges assessed and collected in conjunction with installation of new water services in the Water System and are restricted by State of Oregon Statutes to system enhancements and other related capital expenditures.

- **Debt Service Reserves**
  Deposits held for debt service coverage pursuant to bond indentures and in lieu of, or replacing, bond sureties.

- **Investments for Bond Principal and Interest**
  Used to account for cash and investments which are restricted by Bond Indentures of Trust for future payment of principal and interest on debt.

Detailed amounts for restricted cash and investments were as follows:

	2012		2011	
	Electric System	Water System	Electric System	Water System
Current				
Debt service reserves	$ 9,330,357	$ 2,366,533	$ 7,222,265	$ 2,346,981
Customer deposit and other	4,440,970	295	5,278,653	-
Harvest Wind escrow accounts	2,208,608	-	2,203,685	-
Construction funds	31,665,517	12,962,779	19,527,497	13,702,079
System development charge reserves	-	977,955	-	1,692,004
Investments for bond principal and interest	7,666,056	1,473,981	8,619,556	1,536,682
Restricted cash and investments	55,311,508	17,781,543	42,851,656	19,277,746
Non-current				
Construction funds	3,015,610		3,099,260	2,035,020
Total restricted cash and investments	$ 58,327,118	$ 17,781,543	$ 45,950,916	$ 21,312,766

Designated Cash and Investments

- **Power Unallocated Reserve**
  Used to account for cash and investments which the Board has designated to reserve for one time expenditures, with any allocations made at Board direction.

- **Power Reserve**
  Used to account for cash and investments which the Board has designated to reserve for fluctuations in purchased power costs, load, generation levels, and annual budgeted reserve draw.

- **Capital Improvement Reserve**
  Used to account for cash and investments which the Board has designated to reserve for capital improvements.

- **Carmen-Smith Reserve**
  Used to account for cash and investments which the Board has designated to reserve for relicensing and construction costs at the Carmen-Smith Hydroelectric Project.

- **Operating Reserve**
  Used to account for cash and investments which the Board has designated to maintain balances in the general account within target levels for payments of emergency operating costs, self-insured claims, loans to Steam Utility customers as part of transitioning those customers off of steam heat, funds set aside for the EWEB headquarters master plan, and for a water stewardship reserve.

- **Pension and Medical Reserve**
  Used to account for cash and investments which the Board has designated to reserve for pension and post-retirement medical costs.

(Note 4 – Cash and investments, continued)

Detailed amounts for restricted cash and investments were as follows:

	2012		2011	
	Electric System	Water System	Electric System	Water System
Current				
Power unallocated reserve	$ 12,092,946	$ -	$ 9,661,639	$ -
Power reserve	18,884,540	-	23,435,922	-
Capital improvement reserve	13,340,556	2,382,357	7,114,815	3,671,263
Carmen-Smith reserve	8,490,542	-	6,944,050	-
Operating reserve	7,283,430	428,744	4,244,387	426,300
Pension and medical reserve	4,935,602	-	7,606,344	-
	65,027,616	2,811,101	59,007,157	4,097,563
Non-current				
Power unallocated reserve	1,627,655	-	3,177,520	-
Power reserve	1,000,030	-	2,426,345	-
Carmen-Smith reserve	11,517,125	-	-	-
Pension and medical reserve	3,802,153	-	-	-
	17,946,963	-	5,603,865	-
Total designated cash and investments	$ 82,974,579	$ 2,811,101	$ 64,611,022	$ 4,097,563

Deposits with financial institutions are comprised of bank demand deposits and savings accounts. The total bank balances, as recorded in bank records at December 31, 2012, were $18.2 million. Of the bank balances, $750,000 were covered by federal depository insurance and $17.4 million were collateralized with securities.

Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, a depositor will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits not covered by depository insurance are exposed to custodial credit risk when collateral for deposits is held by the pledging institution or its trust department or agency, but not in the name of the depositor. Within the Public Funds Collateralization Program (PFCP) in Oregon, securities pledged by financial institutions are required to be held in the name of the pool, and, therefore, cannot be in the Board's name. However, provided an entity is recognized by the PFCP administrator as an entity covered by the pool, balances in excess of FDIC are covered by the collateral of the pool.

The Board's investments during the year, which included obligations of the U.S. Government, are authorized by State of Oregon Statutes and bond resolution and by the Board's investment policy. Authorized investments include the Oregon Local Government Investment Pool (LGIP), US Treasury securities, US Government Agency securities, public funds money market accounts, corporate commercial paper and bonds, and other investments enumerated in and authorized by ORS 294.035.

The LGIP is included in the Oregon Short Term Fund (OSTF), which was established by the State Treasurer. OSTF is not subject to SEC regulation. OSTF is subject to requirements established in Oregon Revised Statutes, investment policies adopted by the Oregon Investment Council, and portfolio guidelines established by the OSTF Board. The Governor appoints the members of the Oregon Investment Council and OSTF Board. The fair value of the Board's position in the pool is the same as the value of the pool shares.

As of December 31, 2012, the Board held the following investments (Electric and Water Systems combined):

Invesment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	$ 43,789,382	1.19	25%
U.S. Agency Securities				
FHLB		36,669,402		22%
FNMA		17,175,849		10%
FHLMC		22,938,293		13%
FFCB		7,008,492		4%
FAMCA		10,825,280		7%
Other Agency		16,824,789		10%
Subtotal US Agency	AA	111,442,105	0.97	66%
Municipal Bonds	AA	2,194,646	0.91	1%
Corporate Bonds	AA	14,300,412	0.43	8%
Subtotal all securities		127,937,163	0.91	75%
Total		$ 171,726,545	0.98	100%

The underlying average credit rating of the investment pool is "AA."

(*Note 4 – Cash and investments, continued)*

As of December 31, 2011, the Board held the following investments (Electric and Water Systems combined):

Invesment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	$ 27,415,620	0.51	18%
U.S. Agency Securities				
FHLB		20,390,174		14%
FNMA		7,342,716		5%
FHLMC		40,392,895		27%
FFCB		11,053,279		7%
FAMCA		12,109,550		9%
Other Agency		10,371,918		7%
Subtotal US Agency	AA	101,660,532	0.97	69%
Corporate Bonds	AA	19,050,733	0.43	13%
Subtotal all securities		120,711,265	0.88	82%
Total		$ 148,126,885	0.81	100%

The underlying average credit rating of the investment pool is "AA."

Concentration risk is the risk that when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. This does not apply for pooled investments or investments directly in the US government. ORS 294.035 limits investment in any single issuer of bonds to 5% of a portfolio; there is not a limit for investment in US Agencies. Many government-sponsored agency securities are not backed by the full faith and credit of the US government, including those held by the Board, although market participants widely believe that the government would provide financial support to an agency if the need arose. The Board does not have a policy for investment concentration in those agencies. Regarding the LGIP, with the exception of pass-through funds, the maximum amount of pooled investments to be placed in the pool is limited by ORS 294.810 to $45.0 million as of December 31, 2012.

The “weighted average maturity in years” calculation assumes that all investments are held until maturity.

As a means of limiting its exposure to fair value losses resulting from changes in interest rates, the Board’s investment policy limits at least 75% of its investment portfolio to maturities of less than 18 months. Investment maturities are limited as follows:

Maturity	Minimum Investment
Less than 30 days	5%
Less than 90 days	15%
Less than 180 days	25%
Less than 18 months	75%
Less than 3 years	100%

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party because they are neither insured nor registered and they are held by the counterparty or the counterparty’s trust department or agent, but not in the investor’s name. The Board had a money market investment with Umpqua Bank which was exposed to this risk: $2.4 million at December 31, 2012, and $2.4 million at December 31, 2011. The Board does not have a policy that prohibits this investment. All of the aforementioned investments, except for the investment with Umpqua Bank, and the investments in the LGIP, which are not evidenced by securities, are held in the Board’s name by a third-party custodian.

The Board’s policy, which adheres to Oregon statutes, is to limit its investments to the top two ratings issued by nationally recognized credit rating organizations. As a general practice, and in a further effort to minimize credit risk, the Board invests primarily in U.S. agency investments and in the LGIP.

(Note 4 – Cash and investments, continued)

Cash and investments consisted of the following:

	Restricted Cash and Investments	Cash and Cash Equivalents and Short-term Investments	Designated Funds	Total Carrying Amount 2012	Total Carrying Amount 2011
ELECTRIC SYSTEM					
Cash on hand	$ -	$ 12,560	$ -	$ 12,560	$ 12,560
Cash in bank	4,441,377	8,033,864	-	12,475,241	10,072,714
Investments in the State of Oregon local government investment pool	9,478,381	3,767,459	19,785,606	33,031,446	18,733,939
Investments - US Agencies and Corp.	44,407,360	9,984,432	63,188,973	117,580,765	103,147,422
Total electric system	58,327,118	21,798,315	82,974,579	163,100,012	131,966,635
WATER SYSTEM					
Cash in bank	588,252	530,612	-	1,118,864	293,530
Investments in the State of Oregon local government investment pool	6,836,893	1,109,942	2,811,101	10,757,936	8,681,681
Investments - US Agencies and Corp.	10,356,398	-	-	10,356,398	17,563,843
Total water system	17,781,543	1,640,554	2,811,101	22,233,198	26,539,054
	$ 76,108,661	$ 23,438,869	$ 85,785,680	$ 185,333,210	$ 158,505,689

Note 5 – Receivables

Significant receivables were as follows:

	2012		2011	
	Electric System	Water System	Electric System	Water System
Current receivables				
Accounts receivable	$ 29,819,004	$ 2,219,064	$ 30,476,968	$ 1,964,371
Allowance for doubtful accounts	(327,752)	(34,514)	(236,823)	(27,450)
Net accounts receivable	29,491,252	2,184,550	30,240,145	1,936,921
Conservation loans to customers	1,387,698	52,772	2,168,220	60,161
Steam transition loans to customers	191,031	-	857,318	-
Interest receivable	402,752	21,347	497,213	73,291
Miscellaneous receivables	724,066	9,810	1,928,881	10,562
Note receivable (BPA)	199,046	-	186,867	-
Receivables, less allowances	$ 32,395,845	$ 2,268,479	$ 35,878,644	$ 2,080,935
Long-term receivables				
Conservation loans to customers, net	$ 2,104,953	$ -	$ 1,753,523	$ 5,133
Steam transition loans to customers	1,454,958	-	1,551,471	-
Note receivable (BPA)	98,000	-	297,156	-
Interest receivable (WGA)	1,317,493	-	1,059,675	-
Long-term receivables, conservation and other	$ 4,975,404	$ -	$ 4,661,825	$ 5,133

Note 6 – Payables

Current payables were as follows:

	2012		2011	
	Electric System	Water System	Electric System	Water System
Accounts payable	$ 16,923,757	$ 690,393	$ 17,620,387	$ 821,291
Construction payables	22,054	242,873	317,387	402,701
Cash position/due to Electric System	-	-	-	823,963
Contributions in lieu of taxes	1,223,298	-	1,442,162	-
Customer deposits	1,344,382	-	1,591,937	-
Equipment purchases	44,648	118,506	292,375	249,333
Miscellaneous payables	466,158	78,437	327,875	25,008
Preliminary investigations payables	1,579,840	-	1,066,921	-
Total payables	$ 21,604,137	$ 1,130,209	$ 22,659,044	$ 2,322,296

Note 7 – Other assets and other liabilities

Other assets and other liabilities were as follows:

	2012		2011	
	Electric System	Water System	Electric System	Water System
Other assets				
Non-utility property	$ 7,606,393	$ 153,093	$ 5,023,582	$ 157,130
Conservation assets	1,492,373	-	3,020,691	-
Derivatives at fair value	2,625,350	-	3,162,339	
Option premiums long-term	612,400	-	729,640	-
Unamortized bond expense	2,658,402	888,665	2,741,533	965,162
Joint-use equipment	65,760	27,713	77,489	32,907
Fair value of renewable energy certificates	296,899	-	963,158	-
Prepaid transmission expense - Harvest Wind	1,547,921	-	1,677,590	-
Unamortized organizational costs - Harvest Wind	38,277	-	80,035	-
Regulatory assets				
Sick leave - upon retirement	1,000,584	219,640	1,137,936	249,790
Net pension obligation - supplemental retirement plan	418,571	91,882	579,902	127,295
Accreted interest - capital appreciation bonds	4,825,686	-	4,159,595	-
Other assets	$ 23,188,616	$ 1,380,993	$ 23,353,490	$ 1,532,284
Other liabilities				
Derivatives at fair value	$ 2,431,088	$ -	$ 4,998,795	$ -
Environmental clean up	680,000	-	953,000	-
Member deposits - Public Agency Network	304,071	-	275,473	-
Fair value of renewable energy certificates	296,899	-	963,158	-
System development charge	-	72,601	-	-
Regulatory liabilities				
Sick leave - upon retirement	1,000,584	219,640	1,137,936	249,790
Net pension obligation - supplemental retirement plan	418,571	91,882	579,902	127,295
Other liabilities	$ 5,131,213	$ 384,123	$ 8,908,264	$ 377,085

Note 8 – Investment in WGA

The Board is a party to an Intergovernmental Agency, which is governed equally by the Board and Clatskanie PUD. The Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling $15.1 million, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. In October 2006, the Agency accomplished a refunding of its debt, which allowed the Board to be repaid a significant portion of its remaining equity investment ($10.4 million was repaid in 2006). The balance of the original investment at December 31, 2006 was $2.2 million, and it remained the same at the end of 2012. Repayment of the equity investment is not due until the Agency's Series C 2006 debt is paid off, and as it is further contingent upon the successful operation of the Project, it is not guaranteed. Should the Project fail to generate sufficient revenues, the repayment of the equity contribution may occur only in part or not at all. At December 31, 2012, the Board had a receivable in the amount of $1.3 million ($1.1 million at December 31, 2011) for cumulative preferred dividend on the remaining equity investment; revenue is included with investment earnings.

The investment in Western Generation Agency consists of the balance of the initial equity contribution, 50% of the Agency's net income and losses, and distributions from excess cash. The balance of the investment as of December 31, 2012 was $1,803,000. Under bond agreements, distributions to the Board are limited to $400,000 per year. During 2012, distributions totaling $400,000 were received (and $274,000 was received in 2011).

The Board is committed, through a power purchase agreement, to purchase the output from the Project through the year 2021. The Board has agreed to suspend its agreement with the Agency in favor of a separate purchase power agreement between the Agency and BPA through the year 2016. Financial information for the Project is included in the financial statements of the Agency and may be obtained from the Agency's trustee, Wells Fargo Bank.

Note 9 – Investment in Harvest Wind

The Board is a party to a joint ownership agreement, whereby the Board made an equity investment in the Harvest Wind project, a 98.9 megawatt wind generating facility located in Klickitat County, Washington. The Board's ownership share of Harvest Wind is 20%. Other owners are Peninsula Light Co., 20%, Cowlitz PUD, 30%, and Lakeview Light & Power, 30%. Commercial operations began on December 15, 2009.

During 2009, the joint owners of Harvest Wind elected to classify the project as an association taxable as a corporation. At the time of the election, all project assets were treated as contributed to the corporation. The corporation received a 4% share, and the joint owners received shares in proportion to their ownership. Owners share in power output, income and expenses according to their ownership shares.

The investment in Harvest Wind consists of the Board's share of the costs to develop the project, 20% of the Project's net income and losses, and any preferred distributions. At December 31, 2012, the balance of the Board's investment in Harvest Wind was $27.3 million ($28.4 at December 31, 2011) including estimated income of $660,000 (income of $972,000 in 2011) and distributions of $1.7 million ($14.8 million in 2011 including grant proceeds).

The Board is committed, through an energy purchase agreement, to purchase its share of the output from the Project, and pay its share of project expenses through the year 2029. Additionally, the Board is committed, through a transmission service agreement and a transmission payment agreement, to subsidize the initial construction of transmission lines, deposit funds to ensure contract performance, and purchase transmission from the owner of the transmission lines through the year 2029.

Under the terms of a payment agreement, the Board has deposited $1,340,000 from 2010 distributions in an escrow account to ensure payment of its share of contingent liabilities of the corporation. If no such contingencies occur, the funds will be released from escrow.

Under the terms of a transmission agreement, the Board has $860,000 on deposit in an escrow account to ensure the payment of monthly transmission interconnection expenses.

Financial information for the project is included in the financial statements of the project and may be obtained from the Board.

Note 10 – Long-term debt

Bonds and notes payable were as follows:

	2012	2011
Electric Utility System Revenue and Refunding Bonds		
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2011-2022	$ 22,115,000	$ 23,065,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556	4,067,555
2002 Series B, 6-1-02 issue		
Serial bonds5.70% - 5.90%, due 2011-2012	-	1,495,000
2002 Series C, 6-1-02 issue (refunded 10/4/12)		
Serial Bonds 3.90% - 5.00%, due 2011-2022	-	8,290,000
2003 Series, 6-10-03 issue (refunded 10/4/12)		
Serial Bonds 3.00% - 5.00%, due 2011-2023	-	30,265,000
2005 Series, 5-10-05 issue		
Serial Bonds, 3.75% - 5.0%, due 2011-2020	4,295,000	4,735,000
Term bonds, 4.50%, due 2021 & 2025	3,530,000	3,530,000
2006 Series, 8-24-06 issue		
Serial Bonds 4.00% - 4.50%, due 2011-2026	10,095,000	10,605,000
2008 Series A, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2011-2028	32,075,000	33,495,000
Term bonds, 5.00%, due 2029-2033	15,995,000	15,995,000
2008 Series B, 7-17-08 issue		
Serial Bonds 4.00% - 5.00%, due 2011-2022	27,975,000	28,945,000
2011 Series A, 6-08-11 issue		
Serial Bonds 3.00% - 5.00%, due 2013-2032	51,835,000	51,835,000
Term Bonds, 5.00%, due 2033-2040	14,375,000	14,375,000
2011 Series B, 6-08-11 issue		
Serial Bonds 1.00% - 4.35%, due 2013-2023	9,000,000	9,000,000
2012 Series, 8-1-12 issue		
Serial Bonds 2.00% - 5.00%, due 2013-2032	52,590,000	-
Term Bonds, 5.00%, due 2033-2038	10,165,000	-
Term Bonds, 3.75%, due 2039-2042	8,475,000	-
	266,587,556	239,697,555
Add unamortized premium	14,324,852	7,782,218
Add accreted interest	4,825,686	4,159,595
Less unamortized refunding costs	(1,616,429)	(1,106,120)
Less unamortized discount	-	(164,999)
Electric System bonds payable, long-term and current portion	284,121,665	250,368,249
Less current portion	(7,400,000)	(8,420,000)
Electric System bonds payable, long-term portion	276,721,665	241,948,249
Junior lien loan payable to Bank of America, Harvest Wind Project	31,182,350	32,314,737
Less current portion	(1,186,582)	(1,132,386)
Electric System bonds and note payable, net of current portion	306,717,433	273,130,600

(Note 10 – Long-term debt, continued)

	2012	2011
Water Utility System Revenue and Refunding Bonds		
2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%, due 2011-2022	$ 7,005,000	$ 7,550,000
2005 Series, 8-16-05 issue		
Serial Bonds, 3.50% - 5.00%, due 2011-2025	7,515,000	7,945,000
Term bonds, 4.35%, due 2030	4,180,000	4,180,000
2008 Series, 7-17-08 issue		
Serial Bonds, 4.00% - 5.00%, due 2011-2026	5,750,000	6,045,000
Term bonds, 4.50% - 5.25%, due 2027-2038	8,755,000	8,755,000
2011 Series, 6-29-11 issue		
Serial Bonds, 2.00% - 4.25%, due 2014-2031	9,365,000	9,365,000
Term bonds, 4.50% - 5.00%, due 2032-2040	7,935,000	7,935,000
Note payable - Electric		
11-15-01 issue, 6.32% - 7.21%, due 2011-2027	3,040,057	3,247,334
	53,545,057	55,022,334
Add unamortized premium	436,581	465,300
Less unamortized discount	(93,371)	(103,104)
Less unamortized refunding costs	(925,197)	(1,010,086)
Water System bonds and note payable, long-term and current portion	52,963,070	54,374,444
Less current portion	(1,532,277)	(1,477,277)
Water bonds and note payable, net of current portion	51,430,793	52,897,167
Less inter-system payable	(2,832,780)	(3,040,057)
Water System bonds payable, net of current portion	48,598,013	49,857,110
Total Systems long-term debt, net of current portion	$ 355,315,446	$ 322,987,710

The fair value of bonds and note payable, including the current portion, was as follows:

	Fair Value	
	2012	2011
Electric System	$ 347,637,738	$ 306,294,265
Water System	56,068,338	55,183,931
	$ 403,706,076	$ 361,478,196

The schedule of maturities for principal and interest on bonded debt and note payable is as follows:

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2013	$ 8,586,582	$ 13,294,926	$ 1,325,000	$ 2,203,471
2014	11,583,371	13,455,393	1,780,000	2,151,716
2015	41,452,397	12,270,151	1,840,000	2,088,166
2016	13,510,000	11,079,808	1,920,000	2,016,551
2017	14,480,000	10,445,974	1,995,000	1,938,464
2018 - 2022	87,750,000	40,659,252	11,315,000	8,421,785
2023 - 2027	43,957,556	40,883,463	8,990,000	6,293,666
2028 - 2032	39,915,000	14,164,025	9,120,000	4,261,318
2033 - 2037	20,100,000	6,322,815	8,235,000	2,313,152
2038 - 2042	16,435,000	1,837,439	3,985,000	358,611
	$ 297,769,906	$ 164,413,246	$ 50,505,000	$ 32,046,900

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply. The principal and interest requirements are reflected in the supplementary schedule “Long-Term Bonded Debt and Interest Payment Requirements.” To comply with sinking fund deposit requirements, the Board deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest earnings. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1. At December 31, 2012 and 2011, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

In June 2011, the Board issued $66.2 million in Electric Utility Revenue and Refunding Serial and Term Bonds with interest rates from 3.00% to 5.00%, maturing from 2013 through 2040, with an effective yield of 4.21%, for capital projects pursuant to the Electric Utility Capital Plan, to reimburse for the balance of costs for the Roosevelt Operations Center, and to refund the Series 2001B Revenue and Refunding Bonds. The net difference in aggregate debt service between refunding and refunded debt was $1.5 million, with a net economic gain of $3.4 million.

In June 2011, the Board also issued $9.0 million in Electric Utility Revenue Refunding Serial Bonds refunding the Series 1998A Electric Utility Revenue Bonds, with interest rates ranging from 1.00% to 4.35%, maturing from 2013 through 2023, with an effective yield of 3.79%, a net difference in aggregate debt service between refunding and refunded debt of $1.2 million, and a net economic gain of $1.5 million.

In June 2011, the Board issued $17.3 million in Water Utility Revenue Serial and Term Bonds, with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2040, with an effective yield of 4.41%, for capital projects pursuant to the Water Utility Capital Plan.

(Note 10 – Long-term debt, continued)

In October 2012, the Board issued $71.23 million in Electric Utility Revenue Refunding Serial and Term Bonds for design, construction, installation, and equipping of certain capital improvements related to relicensing of the Carmen-Smith Hydroelectric Project, and for refunding the series 2002C and 2003 bond issues. Interest rates ranged from 2.00% to 5.00%, maturing from 2013 through 2042, with an effective yield of 3.12%, a net difference in aggregate debt service between refunding and refunded debt of $5.1 million, and a net economic gain of $5.0 million on refunding. Proceeds for the Carmen-Smith Project were $40 million, of which $20 million reimbursed for costs already incurred and $20 million was placed in a restricted construction fund.

Long-term debt activity for the year ended December 31, 2012 was as follows:

	Outstanding January 1, 2012	Issued During Year	Redeemed During Year	Outstanding December 31, 2012
Electric Revenue Bonds, with interest rates from 3.0% to 6.85%, maturing through 2033 (original issue $65,480,000)	$ 69,855,000	$ -	$ (3,865,000)	65,990,000
Electric Revenue Refunding Bonds, with interest rates from 1.0% to 5.25%, maturing through 2042 (original issue $253,065,000)	142,710,000	71,230,000	(39,525,000)	174,415,000
Electric Revenue Current Interest Bonds, with interest rate of from 6.32% to 7.21%, maturing through 2027 (original issue $29,997,556)	27,132,556	-	(950,000)	26,182,556
Electric Note Payable, with interest rate of 4.73%, maturing in 2015 (original issue $34,000,000)	32,314,737	-	(1,132,387)	31,182,350
Total Electric System	272,012,293	71,230,000	(45,472,387)	297,769,906
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2030 (original issue $12,540,000)	12,125,000	-	(430,000)	11,695,000
Water Revenue Bonds, with interest rates from 2.75% to 5.30%, maturing through 2040 (original issue $42,895,000)	39,650,000	-	(840,000)	38,810,000
Total Water System	51,775,000	-	(1,270,000)	50,505,000
Total bonded debt	$ 323,787,293	$ 71,230,000	$ (46,742,387)	$ 348,274,906

Long-term debt activity for the year ended December 31, 2011 was as follows:

	Outstanding January 1, 2011	Issued During Year	Redeemed During Year	Outstanding December 31, 2011
Electric Revenue Bonds, with interest rates from 3.0% to 5.0%, maturing through 2033 (original issue $54,480,000)	$ 116,635,000	$ -	$ (46,780,000)	$ 69,855,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.0%, maturing through 2022 (original issue $181,835,000)	73,955,000	75,210,000	(6,455,000)	142,710,000
Electric Revenue Current Interest Bonds, with interest rate of 6.32% to 7.21%, maturing through 2027 (original issue $29,997,556)	27,922,556	-	(790,000)	27,132,556
Electric Note Payable, with interest rate of 4.73%, maturing in 2015 (original issue $34,000,000)	33,395,403	-	(1,080,666)	32,314,737
Total Electric System	251,907,959	75,210,000	(55,105,666)	272,012,293
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2025 (original issue $12,540,000)	12,540,000	-	(415,000)	12,125,000
Water Revenue Bonds, with interest rates from 2.0% to 5.25%, maturing through 2038 (original issue $42,895,000)	23,160,000	17,300,000	(810,000)	39,650,000
Total Water System	35,700,000	17,300,000	(1,225,000)	51,775,000
Total Long-term debt	$ 287,607,959	$ 92,510,000	$ (56,330,666)	$ 323,787,293

Note 11 – Intersystem Receivables and Payables

	2012		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
Current			
Interest	$ 222,333	$ (222,333)	$ -
Note - prepaid retirement obligation	207,277	(207,277)	-
Lease	401,289	(401,289)	-
	830,899	(830,899)	-
Non-current			
Note - prepaid retirement obligation	2,832,780	(2,832,780)	-
Lease	16,379,969	(16,379,969)	-
	19,212,749	(19,212,749)	-
Totals	$ 20,043,648	$ (20,043,648)	$ -

	2011		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
Current			
Interest	$ 223,846	$ (223,846)	$ -
Note - prepaid retirement obligation	207,277	(207,277)	-
Lease	385,967	(385,967)	-
	817,090	(817,090)	-
Non-current			
Note - prepaid retirement obligation	3,040,057	(3,040,057)	-
Lease	16,778,024	(16,778,024)	-
	19,818,081	(19,818,081)	-
Totals	$ 20,635,171	$ (20,635,171)	$ -

Roosevelt Operations Center Lease

The Electric System has financed the acquisition and construction of the Board's Roosevelt Operations Center consisting of land, buildings, equipment and personal property placed into service November 2010. Both the Electric and Water Systems occupy the property. A direct financing lease beginning November 1, 2010 represents the economic substance of an arrangement whereby the Water System will repay the Electric System for the cost to create what is determined to be the Water System's share of the property, and also assume all of the economic benefits and risks of ownership. Future minimum lease payments were estimated to cover the fair value of the Water System's share of the property, and associated financing costs incurred by the Electric System without gain to the Electric System. The transaction was recorded in equal amounts as Plant in Service and a Capital Lease Obligation for the Water System along with depreciation expense and a lease receivable for the Electric System.

Lease payments are revised for refinancing of underlying contributions made by the Electric System. The amount financed by the lease is also revised for capitalized improvements at the facility if they are financed by the Electric System. As of December 31, 2012 (and as of December 31, 2011), minimum lease payments were $99,000 through year 2035, and $13,000 for years 2036 through 2040 on a capitalized value of $17.6 million.

Note 12 – Power supply resources

Bonneville Power Administration

- **Bonneville Power Administration Contracts**
  A new contract was signed on December 4, 2008 that provides power to EWEB from October 1, 2011 through September 30, 2028. The Board reselected a combination of both Block and Slice of System power products from those offered by Bonneville Power Administration (BPA) in the previous contract which ended September 30, 2011. While Slice and Block are still the offered products, BPA has implemented new policies on how it sells power and what it will charge to meet customer's future load growth. Under BPA's new tiered rate methodology policy, BPA has allocated the power output and operational costs of the existing low-cost federal resources into a tier 1 pool. Rates for tier 1 are the lowest cost power available from BPA. The tier 1 power was allocated to public power customers like EWEB based on each customer's 2010 actual weather-adjusted load. The allocation determines the maximum planned amount of tier 1 power that a customer is eligible to purchase in each year of the contract.

  Each product provides attributes that bring different kinds of flexibility to the Board's power portfolio. The Slice provides a percentage of BPA's resources and contracts rather than a guaranteed amount of power and in exchange the Board pays its Slice percentage share of BPA's costs. Slice output, in combination with the Block and other EWEB resources, may be more or less than what is needed to serve EWEB's hourly retail loads. In the spring months, available must-run water in the Columbia system is typically high due to the runoff from snow melting and the increased power generation that must be produced may require BPA to rely on spilling water as a tool to balance generation with demand. However, in order to maintain safe water conditions to protect fish, spills are limited. The risk associated with the Slice product is managing the water variability and available Slice storage to economically meet hourly load obligations and to optimally dispatch the value of the surplus portion of the Slice product. The second BPA product purchased is the Block, which provides a fixed hourly amount for the month, and varies by month. The value of the Block product is the certainty of a fixed volume of power shaped to monthly load requirement and the monthly predictability of prices for the known quantity of power. Average monthly Block deliveries on an annual basis is 120 aMW.

(Note 12 – Power supply resources, continued)

(Bonneville Power Administration Contracts, continued)

The Slice product consists of a Slice share of BPA's Federal Base System generation. Under the new contract, the Board's initial Slice percentage share is 1.81%, compared to the historical 2.4% in the previous Requirements Slice contract. The amount of actual power received under the Slice Product contract will vary with seasonal water year conditions, the performance of the CGS Nuclear plant and the performance and availability of all other Federal Base System resources. In years of heavy water flow and lack of overall storage in the Federal System, the Board may have rights to power that may be in excess of their needs, and in low water years the Board would need to augment its share of Slice output with its own generation, market purchases, or storage releases from EWEB's share of Slice storage.

The annual amount of power the Board is entitled to under these contracts based on the actual load during the period between October 1, 2009 and September 30, 2010, with some adjustments specified in BPA's tiered rate methodology, is approximately 250 aMW.

- **BPA Transmission Contract**
  In 2001, the Board signed the Network Integration Transmission Service contract with BPA to provide transmission for the Board's generation projects and BPA power contracts to serve EWEB's load. The current contract term extends through September 30, 2028. EWEB has firm roll-over rights with this contract.

EWEB-Owned Resources

- **Carmen-Smith and Trailbridge Hydroelectric Project**
  EWEB owns and operates the Carmen-Smith Hydroelectric Project (Carmen-Smith Project) within the McKenzie River basin. The Carmen-Smith Project includes the Carmen Power House with two generating units with a nameplate capacity of 52 MW each. The Carmen-Smith Project also includes the Trail Bridge re-regulating facility, with an additional generating unit with a nameplate capacity of 10 MW. The operating license for the Carmen-Smith Project expired on November 30, 2008. The Board submitted an application to relicense the facility to FERC on November 30, 2006. After relicensing at Trailbridge, the generator nameplate will remain 10 MW but the facility will be water limited by the new fish screen to approximately 8 MW capacity.

  The Board has received, and will continue to receive, an annual operating license from FERC until it issues a new license. In October 2008, the Board entered into a settlement agreement with 16 interested governmental, tribal and non-governmental parties, and submitted an Offer of Settlement to FERC to supplement the license application. The Settlement Agreement provides recommendations for measures that address the resources affected by the continued operation of the Project. The current FERC timeline projects a final license for the Carmen-Smith Project will be issued in 2013.

- **International Paper Industrial Energy Center Cogeneration Project**
  The Board and International Paper Company jointly operate a cogeneration facility at the International Paper Springfield plant. The unit, which has a nameplate capacity of 25.4 MW (average output is approximately 20 aMW), is owned by the Board, with International Paper providing operation and fuel. Under terms of the current agreement (which expires in 2019), the project costs and output for this unit are shared equally by the parties.

- **Leaburg Walterville Hydroelectric Project**
  The Board owns and operates the Leaburg Walterville Hydroelectric Project (L-W Project) on the McKenzie River in Lane County, Oregon. The L-W Project is comprised of two run-of-river facilities located at different points on the McKenzie River. The Leaburg facility includes a diversion dam on the McKenzie River, a canal and two generating units with a combined nameplate capacity of 15.9 MW. The Walterville facility includes a canal that diverts water from the McKenzie River and one generating unit with a nameplate capacity of 8 MW. In 2001, FERC granted the Board a new hydroelectric license for the L-W Project. The new license is for a term of 40 years.

- **Stone Creek Hydroelectric Project**
  The Stone Creek Project has one turbine with a peak capability of 12 MW. The facilities are on the Clackamas River approximately 45 miles southeast of Portland. The project is a run-of-the-river development located between two hydroelectric facilities that are owned and operated by PGE. The facility is operated and maintained under contract with PGE and is licensed through 2038.

- **Smith Creek Hydroelectric Project**
  The Smith Creek project is a run-of-the-river hydroelectric project on Smith Creek, a tributary of the Kootenai River in Northern Idaho. It is comprised of three units with a combined nameplate capacity of 38.3 MW. In April 2001, the Board took ownership of the project, which is licensed through 2037.

- **Foote Creek I Wind Project**
  The Board and PacifiCorp are the joint owners of the Foote Creek I Wind Project with the Board having a 21.21% ownership, which translates to 8.8 MW of the project capacity. The project is located along the Foote Creek Rim in Carbon County, Wyoming. EWEB has sold 26% or 2.3 MW of its share to BPA under terms of a 25 year power purchase agreement, pursuant to which BPA has committed to purchase 15.3 MW of the Project's total capacity. Net of sales to BPA, the Board receives approximately 2.5 aMW per year from the Foote Creek I Project.

(Note 12 – Power supply resources, continued)

- **Harvest Wind Project**
  The Board, Cowlitz PUD, Lakeview Light and Power, and Peninsula Light Company are the joint owners of the Harvest Wind Project, with the Board having a 20% ownership share. The project has a nameplate capacity of 98.9 MW and is located in Klickitat County, Washington. All project assets are held by a corporation formed by the owners. The Board and other owners have committed to purchase power from the corporation in proportion to their ownership shares through December 2029.

Contract Resources

- **Priest Rapids and Wanapum Hydroelectric Projects**
  EWEB purchases power from the Priest Rapids Project composed of the Priest Rapids Dam and the Wanapum Dam, two large hydroelectric developments on the Columbia River in Washington owned by Public Utility District No. 2 of Grant County, Washington (Grant County PUD). The most recent power purchase contract with Grant County PUD continues through October 31, 2059. Under this renewed contract, EWEB's share of purchased physical power from Grant County PUD will be 0.14% of the project output or about 1.4 aMW per year.

- **Stateline Wind Project**
  In 2002, the Board agreed to purchase 25 MW from Phase 1 of the Stateline Wind Project (Stateline) located in Walla Walla County, Washington and Umatilla County, Oregon. The project consists of 399 wind turbines with total generating capacity of about 450 MW. The contract for this power expires on December 31, 2026.

- **Klondike III Wind Project**
  The Board has agreed to purchase 25 MW from Phase 3 of the Klondike Wind project located near the town of Wasco in Sherman County, Oregon. The project consists of 125 wind turbines with total generating capacity of about 224 MW. The Board's 25 MW share translates to about 11.2% of Klondike III total plant capability. The contract for this power expires on October 31, 2027.

- **Seneca Sustainable Energy**
  On February 25, 2010, EWEB entered a Renewable Power Purchase Agreement with Seneca Sustainable Energy LLC (SSE) to purchase the output of the biomass fueled electric cogeneration facility located in Eugene, Oregon. The contract term is for 15 years commencing on the commercial date of April 5, 2011. Nameplate capacity is 19.8 MW. Expected average output is approximately 14 aMW.

- **Solar PV Purchases**
  EWEB has a program to support the development of Solar PV generation in Eugene through the provision of net metering rates to those customers with small systems that wish to self-generate power and standard offers for long-term power purchases at fixed rates for customers with larger systems. Program participation is limited to systems under 0.2 MW. As of the close of 2012, EWEB had acquired contracts with total capacity slightly over 2 MW and 0.22 aMW of energy.

- **Metropolitan Wastewater Management Commission Biogas**
  The Metropolitan Wastewater Management Commission (MWMC) owns and operates the water pollution control facility located on River Avenue in Eugene that processes the wastewater created in the Eugene-Springfield metropolitan area. The byproduct of the decomposition that takes place during treatment is a biogas which is collected and piped into a reciprocating engine connected to a 0.80 MW generator that produces about 0.57 aMW per year. The renewable power purchase agreement with MWMC is for 10 years ending in 2019.

Note 13 – Retirement benefits

1. Pension Plan

Plan Description
The Board participates in the Oregon Public Employees Retirement System (OPERS) and Oregon Public Service Retirement Plan (OPSRP). The pension plan is an agent multiple-employer defined benefit and a defined contribution plan that provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to general service and public safety employees of the state and a majority of local government employees and/or their beneficiaries. The OPERS Board administers both plans, which are established under Oregon Revised Statutes, and acts as a common investment and administrative agent for public employers in the State of Oregon.

OPSRP was created during the 2003 Oregon Legislative session and represents the pension plan for public employees hired on or after August 29, 2003, unless membership was previously established in OPERS, which is a closed plan. All Board employees are eligible to participate in OPSRP after six months of employment. Benefits are established under both plans by State Statute and employer contributions are made at an actuarially determined rate as adopted by the Public Employees Retirement Board (Retirement Board). The OPERS, a component unit of the State of Oregon, issues a comprehensive annual report that includes both pension plans, which may be obtained from OPERS.

(Note 13 – Retirement benefits, continued)

Funding Policy

State of Oregon Statute requires covered employees to contribute 6% of their salary to the system, but allows the employer to pay any or all of the employees' contribution in addition to the required employer's contribution. The Board has elected to pay the employees' contributions.

In November 2006, the Board elected to make a lump-sum payment to OPERS of $7.2 million which lowered the employer contribution rate and OPERS allocated to a "side account" which is tracked separately for rate purposes. The Board's current employer contribution rate is 23.38% and 22.96% for OPERS and OPSRP, respectively. On July 1, 2013, contribution rates will increase to 26.65% and 24.83% for OPERS and OPSRP, respectively. In December 2001, the Board elected to make a lump-sum payment of approximately $29.6 million, which had the effect of lowering the employer contribution rate. The lump-sum payment is recorded as an Other Asset and is being amortized over the funding period of 26 years. The amortization was $1.2 million for 2012 and 2011.

Annual Pension Cost

Because all participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are currently calculated in conformance with the parameters of GASB No. 27, Accounting for Pensions by State and Local Government Employers, there is no net pension obligation to report, and annual required contributions are equal to the annual pension cost. The Board's annual pension cost of $12.5 million for OPERS was equal to the Board's required and actual contributions.

The following table presents three-year trend information for the Board's employee pension plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2010	$ 8,703,000	100%	$ -
12/31/2011	$ 10,985,000	100%	$ -
12/31/2012	$ 12,535,203	100%	$ -

The required contribution was determined as part of the December 31, 2011, actuarial valuation using the projected unit credit method. The actuarial assumption included (a) 8% investment rate of return (b) projected salary increases of 3.75% per year, and (c) 2% per year for cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the assets was determined by the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of combined valuation payroll over a closed period. For the OPERS UAL, this period is 20 years; OPSRP is 16 years and for retiree healthcare, it is 10 years.

Funding Status and Funding Progress
As of December 31, 2011, the most recent actuarial valuation date, the plan was 69% funded. The actuarial accrued liability for benefits was $306 million, and the actuarial value of assets was $213 million, resulting in an unfunded actuarial accrued liability (UAAL) of $93 million. The covered payroll (annual payroll of active employees covered by the plan) was $41.8 million, and the ratio of the UAAL to the covered payroll was 224%.

The following table presents a schedule of the funding progress for the Board's pension plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	$ 208,718,948	$ 290,442,448	$ 81,723,500	72%	$ 37,857,319	216%
12/31/2010	$ 219,929,139	$ 301,199,612	$ 81,270,473	73%	$ 40,283,981	202%
12/31/2011	$ 212,836,317	$ 306,418,228	$ 93,581,912	69%	$ 41,865,384	224%

2. The Supplemental Retirement Plan

Plan Description
The Supplemental Retirement Plan is a single-employer plan providing retirement, death and disability benefits to participants and their beneficiaries. It has been in effect since January 1, 1968 and was last amended and restated July 1988. The objective of the plan is to provide a benefit on retirement which, together with the benefit from OPERS, will provide 1.67% of the highest 36-month average salary for each year of service. Independent actuaries determine employer contributions.

Funding Policy
There is no required contribution rate as a percentage of payroll, since the only participants currently in the plan are retirees and their beneficiaries. Funding of the plan is made from Board contributions, as needed to meet obligations to retirees, together with earnings on plan assets.

Annual Pension Cost
Employer contributions are calculated and made in conformity with the parameters of GASB No. 27. The Board's annual pension cost is based upon its latest actuarial report, dated January 1, 2012, with the next actuarial valuation to be completed during 2014 for the plan year ended December 31, 2013.

The Board's pension liability and the annual required contribution rate were determined as part of the January 1, 2012 actuarial valuation using the unit credit method. The unfunded actuarial accrued liability is amortized as a level percentage of projected annual payroll on an open basis over a 10-year period. The actuarial assumptions include a rate of return on investment of present and future assets of 6.25% per year, cost-of-living adjustments of 2.0% per year for post-retirement benefits and 1983 Group Annuity Mortality rate.

(Note 13 – Retirement benefits, continued)

(Annual Pension Cost, continued)

The Board's annual pension cost and the change in net pension obligation related to the Supplemental Retirement Plan is as follows:

Annual required contribution (ARC)	$	290,972
Interest on net pension obligation		44,200
Adjustment to ARC		(87,916)
Annual pension cost		247,256
Contributions made		444,000
Increase (decrease) in net pension obligation		(196,744)
Net pension obligation as of 1/1/10		707,197
Net pension obligation as of 12/31/10	$	510,453

The following table presents three-year trend information for the Board's Supplemental Retirement Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2008	$ 266,947	135%	$ 899,923
12/31/2009	$ 251,274	177%	$ 707,197
12/31/2010	$ 247,256	180%	$ 510,453

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 10% funded. The actuarial accrued liability for benefits was $1.9, and the actuarial value of assets was $193,000, resulting in an unfunded actuarial accrued liability (UAAL) of $1.7 million. The Board has designated funds of $1.3 million to fund the supplemental retirement plan. Since the pension plan is a closed plan and funds are designated to fund remaining UAAL, the Board continues to fund the plan on a pay-as-you-go basis of approximately $444,000 a year. The actuarial value of assets represents the market value of investments using recognized pricing services.

The following table presents a schedule of funding progress for the Board's Supplemental Retirement Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
1/1/2009	$ 161,317	$ 2,939,643	$ 2,232,326	6.7%
1/1/2010	$ 64,826	$ 2,181,270	$ 2,116,444	3.0%
1/1/2012	$ 193,120	$ 1,934,102	$ 1,740,982	10.0%

3. Post Employment Benefits Plan Other than Pensions

Plan Description

In addition to pension benefits, the Board provides post employment health care and life insurance benefits to all employees who retire under OPERS or OPSRP with at least 11 years of service. It is a single-employer defined benefit plan. Currently, 490 retirees or surviving spouses of retired employees and 538 active employees are covered under the plan. The life insurance benefit is a fixed amount of $5,000 per retiree. Health care coverage reimburses 80% of the amount of validated claims for certain medical, dental, vision and hospitalization costs. In 2007, the Board created the Eugene Water & Electric Board Retirement Benefits Trust for other post employment benefits (OPEB) other than pensions. The OPEB trust issues a publicly available set of audited financial statements that can be obtained by writing to the Board.

Funding Policy

The contribution requirements of plan participants are established by the Board and may be amended from time to time. Contributions by the plan participants are based on either a flat rate or a percentage of the premium cost and vary by participant according to years of service, year of retirement, age, and/or plan coverage. In December 2007, the Board deposited $8.2 million into the OPEB trust to begin funding the trust. It is the Board's intent to pay the actuarially determined OPEB cost annually to the trust.

Annual OPEB Cost

The Board's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC). The ARC is an amount actuarially determined, based on the entry age normal method, determined in accordance with the guidance of GASB Statement 45.

The ARC represents level funding, that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities over an open 20-year period. Amortization is calculated as a level percentage of projected payroll. During 2011, the Board made contributions in excess of the ARC resulting in a negative OPEB obligation (an asset or prepaid expense), and therefore the Board contributed less than the ARC during 2012 to reduce that balance. Actual contributions were $3.0 million during 2011 and $1.8 million during 2012.

(Note 13 – Retirement benefits, continued)

(Annual OPEB Cost, continued)

Other actuarial assumptions include a rate of return on investments of present and future assets of 7% and 9% annual rate increase in the per capita cost of covered health care benefits for 2011. The health care benefit rate is assumed to decrease gradually to 6% in the year 2017 and remain level thereafter. The salary scale assumption is 4.5% and the payroll growth rate is 4%.

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

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation or asset for 2012 and the preceding years were as follows:

Fiscal Year Ended	Annaul OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
12/31/2010	$ 2,942,862	100%	$ -
12/31/2011	$ 2,414,202	122%	$ (535,798)
12/31/2012	$ 2,289,089	80%	$ (84,662)

Funding Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 33% funded. The actuarial accrued liability for benefits was $34 million, and the actuarial value of assets was $11 million, resulting in an unfunded actuarial accrued liability (UAAL) of $23 million.

The following table presents a schedule of funding progress for the Board's OPEB Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2010	$ 9,767,736	$ 38,459,621	$ 28,691,885	25%	$ 37,857,319	76%
1/1/2011	$ 11,181,159	$ 34,979,118	$ 23,797,959	32%	$ 40,283,981	59%
1/1/2012	$ 11,259,871	$ 34,105,920	$ 22,846,049	33%	$ 41,865,384	55%

Actuarial valuations on an ongoing plan involve estimates of the value reported and assumptions about the probability of occurrence of events 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 the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Note 14 – Deferred compensation

The Board offers all employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits them to defer a portion of their salary until future years. Participation in the plan is optional. Payment from the plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The Board works with separate investment providers who also provide third-party administration for all deferred compensation program funds. Participating employees have several investment options with varying degrees of market risk. The Board has no liability for losses under the plan, but does have the duty to administer the plan in a prudent manner.

The Board has little administrative involvement with the plan and does not perform the investing function. Therefore, in accordance with GASB No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the plan assets are not included in the accompanying Statements of Net Position.

Note 15 – Trojan Nuclear Plant

The Trojan Nuclear Plant (Project) is jointly owned by Portland General Electric Company (PGE), 67.5%; the City of Eugene, acting by and through Eugene Water & Electric Board, 30%; and Pacific Power and Light Company, 2.5%; as tenants in common. The Project ceased commercial operation in 1993 and is being decommissioned. In accordance with GASB No. 14, The Financial Reporting Entity, the Project is reported as a joint venture on the equity method of accounting.

Under the terms of Net Billing Agreements, executed in 1970, BPA is obligated to pay the Board amounts sufficient to pay all of the Board’s costs related to the Project, including decommissioning and debt service, notwithstanding the termination of plant output. BPA pays those costs primarily by issuing credits against the Net Billing Participant’s purchases of electricity from BPA, but in some cases also makes payments in cash. The Board is required to transfer from its Electric System Fund to the Trojan Project Fund an amount equal to all net billing credits received through this agreement. The Board is then responsible for making payments from the Trojan Project Fund to the Trojan Project for the Board’s share of decommissioning costs.

Since BPA is obligated to pay the Board’s share of all Trojan Project costs, and has provided the Board with legally binding written assurances of its commitment to that obligation, the Board does not expect the closure and decommissioning of the Trojan Project to have any adverse effect on the Board’s Electric or Water Systems. As such, the equity interest in the Project is zero. However, under the terms of the original agreements, if one of the tenants in common fails to perform on their obligation for decommissioning costs, the other tenants may be liable. This obligation may not be covered under the Net Billing Agreement mentioned previously. However, the Board believes this risk is minimal.

(Note 15 – Trojan Nuclear Plant, continued)

A summary of the balance sheets for EWEB's share of the Trojan Project as of September 30, 2012 and September 30, 2011 is as follows.

	Unaudited September 30, 2012	Unaudited September 30, 2011
Assets		
Current assets	$ 288,468	$ 544,533
Long-term receivable, BPA, net	41,875,103	42,810,319
Total assets	$ 42,163,571	$ 43,354,852
Liabilities		
Current liabilities	$ 1,621,528	$ 1,285,787
Accumulated provision for decommissioning costs	40,542,043	42,069,065
Total liabilitites	$ 42,163,571	$ 43,354,852

The Trojan Nuclear Plant financial statements can be obtained from the Board.

Note 16 – Commitments and contingencies

Electric Projects

- **Construction**
  Committed purchases for distribution assets at December 31, 2012 were $187,000.

- **Carmen-Smith Relicensing**
  Commitments for preconstruction costs to relicense the Carmen-Smith Project were $4.4 million for engineering and environmental services ($5.8 million at December 31, 2011).

  An arrangement with the US Forest Service is to provide for maintenance and enhancement measures on the National Forest Service land where the project is located. The Board expects to make annual payments of varying, prescheduled amounts to the Forest Service in accordance with settlement provisions. The payments are to total approximately $1.5 million before inflation indexing over the life of the 50-year license.

Water Projects

Contractual commitments for construction at the Hayden Bridge filtration plant, the Willamette River Bridge Crossing, and for raw water intake improvements were $6.1 million ($200,000 at December 31, 2011 for engineering design of the intake).

Self-Insurance

The Board is exposed to various risks of loss because of the Board's self-insurance retention, up to the first $1,000,000 of exposure, per occurrence. Excess liability coverage protects the Board after the Board's self-insured limit is exhausted. However, public entities are also protected under State of Oregon tort limits ORS 30.260 – 30.300, which reduces the liability to any single claimant to $600,000. The limit on liability increases during successive years by $33,300 and $66,700 for causes of action arising during years ending December 31, 2013 and December 13, 2014, respectively. Consequently, except in extreme cases, the Board's exposure is mitigated by law. The limit is subject to change by State of Oregon legislation.

Claims liabilities recorded in the basic financial statements are based on the estimated ultimate loss as of the balance sheet date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported claims. Non-incremental claims adjustment costs such as salaries are not included in the claims estimates. At December 31, 2012, a total claims liability of approximately $323,437 is reported in the basic financial statements. All prior and current-year claim liabilities were fully reserved and have not been discounted.

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2010	General Liability	$ 923,000	$ (107,119)	$ (447,816)	$ 368,065
2011	General Liability	$ 368,065	$ 109,252	$ (404,017)	$ 73,300
2012	General Liability	$ 73,300	$ 439,400	$ (189,263)	$ 323,437

Claims and Other Legal Proceedings

The Board is involved in various litigations. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Board's financial position beyond amounts already accrued as of December 31, 2012.

ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2012

	2001A Series Current Interest 11-15-01		Revenue 2005 Series 5-10-05		Revenue 2006 Series 8-24-06	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 1,125,000	$ 1,397,668	$ 460,000	$ 347,550	$ 530,000	$ 420,401
2014	1,310,000	1,326,568	480,000	326,850	550,000	399,201
2015	1,520,000	1,243,776	500,000	305,250	575,000	374,451
2016	1,745,000	1,147,712	525,000	282,750	600,000	348,576
2017	1,990,000	1,037,428	550,000	256,500	625,000	324,576
2018	2,255,000	911,660	570,000	234,500	655,000	299,576
2019	2,545,000	769,144	595,000	210,275	690,000	273,376
2020	2,860,000	608,300	615,000	184,988	720,000	245,776
2021	3,200,000	427,548	645,000	158,850	760,000	216,076
2022	3,565,000	225,308	675,000	129,825	795,000	184,726
2023	867,106	3,097,894	705,000	99,450	835,000	151,933
2024	839,611	3,305,389	735,000	67,725	875,000	116,863
2025	814,720	3,520,280	770,000	34,650	920,000	80,113
2026	789,579	3,740,421	-	-	965,000	41,013
2027	756,540	3,913,460	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
	26,182,556	26,672,556	7,825,000	2,639,163	10,095,000	3,476,657
Less current portion	1,125,000	-	460,000	-	530,000	-
	$ 25,057,556	$ 26,672,556	$ 7,365,000	$ 2,639,163	$ 9,565,000	$ 3,476,657

ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2012

	Revenue 2008 A Series 7-17-08		Refunding 2008B Series 7-17-08		Revenue and Refunding 2011A Series 6-08-11	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 1,470,000	$ 2,355,175	$ 1,115,000	$ 1,398,750	$ 1,575,000	$ 3,152,406
2014	1,540,000	2,281,675	1,690,000	1,343,000	1,920,000	3,105,156
2015	1,490,000	2,204,675	1,950,000	1,258,500	2,015,000	3,009,156
2016	1,565,000	2,130,175	2,235,000	1,161,000	2,055,000	2,948,706
2017	1,645,000	2,051,925	2,550,000	1,049,250	2,155,000	2,845,956
2018	1,725,000	1,969,675	2,895,000	921,750	2,225,000	2,759,756
2019	1,810,000	1,883,425	3,260,000	777,000	2,335,000	2,648,506
2020	1,905,000	1,792,925	3,650,000	614,000	2,475,000	2,531,756
2021	2,000,000	1,697,675	4,085,000	431,500	1,575,000	2,432,756
2022	2,095,000	1,597,675	4,545,000	227,250	1,660,000	2,354,006
2023	2,200,000	1,492,925	-	-	2,480,000	2,271,006
2024	2,300,000	1,393,925	-	-	2,610,000	2,147,006
2025	2,405,000	1,290,425	-	-	2,645,000	2,016,506
2026	2,520,000	1,176,188	-	-	3,030,000	1,884,256
2027	2,640,000	1,056,486	-	-	3,180,000	1,732,756
2028	2,765,000	931,088	-	-	3,440,000	1,573,756
2029	2,895,000	799,750	-	-	3,510,000	1,401,756
2030	3,040,000	655,000	-	-	3,685,000	1,226,256
2031	3,190,000	503,000	-	-	3,865,000	1,042,006
2032	3,350,000	343,500	-	-	3,400,000	863,250
2033	3,520,000	176,000	-	-	1,505,000	718,750
2034	-	-	-	-	1,580,000	643,500
2035	-	-	-	-	1,660,000	564,500
2036	-	-	-	-	1,745,000	481,500
2037	-	-	-	-	1,830,000	394,250
2038	-	-	-	-	1,920,000	302,750
2039	-	-	-	-	2,015,000	206,750
2040	-	-	-	-	2,120,000	106,000
2041	-	-	-	-	-	-
2042	-	-	-	-	-	-
	48,070,000	29,783,287	27,975,000	9,182,000	66,210,000	47,364,714
Less current portion	1,470,000	-	1,115,000	-	1,575,000	
	$ 46,600,000	$ 29,783,287	$ 26,860,000	$ 9,182,000	$ 64,635,000	$ 47,364,714

ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2012

	Refunding 2011B Series 6-08-11		Revenue and Refunding 2012 Series 8-01-12		Total Electric System Payments		
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2013	$ 560,000	$ 293,255	$ 565,000	$ 2,468,663	$ 7,400,000	$ 11,833,868	$ 19,233,868
2014	745,000	287,655	2,105,000	2,981,019	10,340,000	12,051,124	22,391,124
2015	755,000	276,480	3,895,000	2,917,869	12,700,000	11,590,157	24,290,157
2016	775,000	259,870	4,010,000	2,801,019	13,510,000	11,079,808	24,589,808
2017	790,000	239,720	4,175,000	2,640,619	14,480,000	10,445,974	24,925,974
2018	815,000	215,625	4,385,000	2,431,869	15,525,000	9,744,411	25,269,411
2019	840,000	188,323	4,605,000	2,219,919	16,680,000	8,969,968	25,649,968
2020	875,000	155,983	4,795,000	2,035,719	17,895,000	8,169,447	26,064,447
2021	915,000	120,983	4,990,000	1,843,919	18,170,000	7,329,307	25,499,307
2022	945,000	83,010	5,200,000	1,644,319	19,480,000	6,446,119	25,926,119
2023	985,000	42,848	2,635,000	1,384,319	10,707,106	8,540,375	19,247,481
2024	-	-	1,040,000	1,278,919	8,399,611	8,309,827	16,709,438
2025	-	-	1,085,000	1,237,319	8,639,720	8,179,293	16,819,013
2026	-	-	1,135,000	1,183,069	8,439,579	8,024,947	16,464,526
2027	-	-	1,195,000	1,126,319	7,771,540	7,829,021	15,600,561
2028	-	-	1,255,000	1,066,569	7,460,000	3,571,413	11,031,413
2029	-	-	1,315,000	1,003,819	7,720,000	3,205,325	10,925,325
2030	-	-	1,360,000	962,725	8,085,000	2,843,981	10,928,981
2031	-	-	1,400,000	918,525	8,455,000	2,463,531	10,918,531
2032	-	-	1,445,000	873,025	8,195,000	2,079,775	10,274,775
2033	-	-	1,495,000	826,063	6,520,000	1,720,813	8,240,813
2034	-	-	1,570,000	751,313	3,150,000	1,394,813	4,544,813
2035	-	-	1,650,000	672,813	3,310,000	1,237,313	4,547,313
2036	-	-	1,730,000	590,313	3,475,000	1,071,813	4,546,813
2037	-	-	1,815,000	503,813	3,645,000	898,063	4,543,063
2038	-	-	1,905,000	413,063	3,825,000	715,813	4,540,813
2039	-	-	2,005,000	317,813	4,020,000	524,563	4,544,563
2040	-	-	2,080,000	242,625	4,200,000	348,625	4,548,625
2041	-	-	2,155,000	164,625	2,155,000	164,625	2,319,625
2042	-	-	2,235,000	83,813	2,235,000	83,813	2,318,813
	9,000,000	2,163,752	71,230,000	39,585,796	266,587,556	160,867,925	427,455,481
Less current portion	560,000	-	565,000	-	7,400,000	-	7,400,000
	$ 8,440,000	$ 2,163,752	$ 70,665,000	$ 39,585,796	$ 259,187,556	$ 160,867,925	$ 420,055,481

WATER SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2012

	Revenue Bond 2002 Series 8-01-02		Revenue Bonds and Refunding 2005 Series 8-16-05		Revenue Bonds 2008 Series 7-17-08	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 570,000	$ 305,826	$ 445,000	$ 502,880	$ 310,000	$ 685,690
2014	595,000	283,596	460,000	487,305	320,000	671,740
2015	620,000	259,796	475,000	470,055	335,000	657,340
2016	645,000	234,221	500,000	451,055	350,000	642,600
2017	675,000	206,809	520,000	426,055	365,000	627,550
2018	710,000	178,121	545,000	400,055	380,000	612,950
2019	740,000	147,059	570,000	372,805	395,000	597,750
2020	780,000	113,759	600,000	344,305	415,000	581,555
2021	815,000	77,879	630,000	320,305	430,000	564,125
2022	855,000	40,185	655,000	295,105	450,000	545,850
2023	-	-	675,000	268,905	465,000	526,725
2024	-	-	705,000	241,230	490,000	505,800
2025	-	-	735,000	212,149	510,000	483,750
2026	-	-	765,000	181,830	535,000	460,800
2027	-	-	800,000	148,552	560,000	436,725
2028	-	-	835,000	113,753	585,000	411,525
2029	-	-	870,000	77,430	610,000	385,200
2030	-	-	910,000	39,585	635,000	357,750
2031	-	-	-	-	665,000	329,175
2032	-	-	-	-	695,000	299,250
2033	-	-	-	-	730,000	262,763
2034	-	-	-	-	770,000	224,438
2035	-	-	-	-	810,000	184,013
2036	-	-	-	-	855,000	141,488
2037	-	-	-	-	895,000	96,600
2038	-	-	-	-	945,000	49,611
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
	7,005,000	1,847,251	11,695,000	5,353,359	14,505,000	11,342,763
Less current portion	570,000	-	445,000	-	310,000	-
	$ 6,435,000	$ 1,847,251	$ 11,250,000	$ 5,353,359	$ 14,195,000	$ 11,342,763

WATER SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2012

	Revenue Bonds 2011 Series 6-29-11		Total Water System Payments		
	Principal	Interest	Principal	Interest	Totals
2013	$ -	$ 709,075	$ 1,325,000	$ 2,203,471	$ 3,528,471
2014	405,000	709,075	1,780,000	2,151,716	3,931,716
2015	410,000	700,975	1,840,000	2,088,166	3,928,166
2016	425,000	688,675	1,920,000	2,016,551	3,936,551
2017	435,000	678,050	1,995,000	1,938,464	3,933,464
2018	445,000	669,350	2,080,000	1,860,476	3,940,476
2019	455,000	659,338	2,160,000	1,776,952	3,936,952
2020	470,000	647,963	2,265,000	1,687,582	3,952,582
2021	480,000	633,863	2,355,000	1,596,172	3,951,172
2022	495,000	619,463	2,455,000	1,500,603	3,955,603
2023	510,000	603,375	1,650,000	1,399,005	3,049,005
2024	530,000	585,525	1,725,000	1,332,555	3,057,555
2025	550,000	566,975	1,795,000	1,262,874	3,057,874
2026	570,000	546,350	1,870,000	1,188,980	3,058,980
2027	590,000	524,975	1,950,000	1,110,252	3,060,252
2028	610,000	501,375	2,030,000	1,026,653	3,056,653
2029	635,000	476,975	2,115,000	939,605	3,054,605
2030	660,000	451,575	2,205,000	848,910	3,053,910
2031	690,000	423,525	1,355,000	752,700	2,107,700
2032	720,000	394,200	1,415,000	693,450	2,108,450
2033	755,000	358,875	1,485,000	621,638	2,106,638
2034	795,000	321,975	1,565,000	546,413	2,111,413
2035	830,000	283,250	1,640,000	467,263	2,107,263
2036	875,000	241,750	1,730,000	383,238	2,113,238
2037	920,000	198,000	1,815,000	294,600	2,109,600
2038	965,000	152,000	1,910,000	201,611	2,111,611
2039	1,010,000	103,750	1,010,000	103,750	1,113,750
2040	1,065,000	53,250	1,065,000	53,250	1,118,250
	17,300,000	13,503,527	50,505,000	32,046,900	82,551,900
Less current portion	-	-	1,325,000	-	1,325,000
	$ 17,300,000	$ 13,503,527	$ 49,180,000	$ 32,046,900	$ 81,226,900

ELECTRIC SYSTEM
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2012

	Bond Funds					
	Interest Accounts	Principal Accounts	Debt Service Reserve	Construction Funds	Customer & Escrow Deposit Reserve	Total All Funds
Ending balance - December 31, 2011	$ 5,106,894	$ 3,512,662	$ 7,222,265	$ 22,626,757	$ 7,482,338	$ 45,950,916
Bond Proceeds	-	-	2,000,000	40,328,085	-	42,328,085
Deposits from general fund	11,640,996	8,381,266	-	-	203,217	20,225,479
Interest earnings	2,307	2,463	9,118	66,292	26,633	106,813
Other transfers	-	385	98,974	-	-	99,359
Receipts	11,643,303	8,384,114	2,108,092	40,394,377	229,850	62,759,736
Principal payments	-	8,420,000	-	-	-	8,420,000
Interest payments	11,810,375	-	-	-	-	11,810,375
Defeasance	292,648	457,509	-	-	-	750,157
Transfers to general fund	-	-	-	28,310,235	212,610	28,522,845
Other transfers	385	-	-	29,772	850,000	880,157
Disbursements	12,103,408	8,877,509	-	28,340,007	1,062,610	50,383,534
U.S. agency securities, at market	2,591,720	1,767,289	9,329,220	28,515,014	2,204,117	44,407,360
Cash in bank	2,055,069	1,251,978	1,137	-	1,133,193	4,441,377
State of Oregon Local Government Investment Pool	-	-	-	6,166,113	3,312,268	9,478,381
Ending balance - December 31, 2012	$ 4,646,789	$ 3,019,267	$ 9,330,357	$ 34,681,127	$ 6,649,578	$ 58,327,118

WATER SYSTEM
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2012

	Debt Service Accounts	SDC Reserves	Construction Funds	Other Restricted	Total All Funds
Ending balance - December 31, 2011	$ 3,883,663	$ 1,692,005	$ 15,737,099	$ -	$ 21,312,767
Proceeds from bond issue	-	-	-	-	-
Deposits from general fund	3,521,700	614,771	-	65,318	4,201,789
Interest earnings	3,238	7,979	68,105	139	79,461
Other transfers	17,177	-	-	-	17,177
Receipts	3,542,115	622,750	68,105	65,457	4,298,427
Principal payments	1,270,000	-	-	-	1,270,000
Interest payments	2,315,263	-	-	-	2,315,263
Transfers to general fund	-	1,336,800	2,842,425	65,162	4,244,387
Other transfers	-	-	-	-	-
Disbursements	3,585,263	1,336,800	2,842,425	65,162	7,829,650
U.S. agency securities, at market	3,252,262	-	7,104,136	-	10,356,398
Cash in bank	588,252	-	-	-	588,252
Investment Pool	-	977,955	5,858,643	295	6,836,893
Ending balance - December 31, 2012	$ 3,840,515	$ 977,955	$ 12,962,779	$ 295	$ 17,781,544

Audit Comments

(Disclosures and comments required by state regulations)

Oregon Administrative Rules 162-10-050 through 162-10-320, *the Minimum Standards for Audits of Oregon Municipal Corporations,* prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth following.

This page intentionally left blank

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS ON THE EUGENE WATER & ELECTRIC BOARD'S COMPLIANCE AND CERTAIN ITEMS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON AUDITING STANDARDS

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the accompanying combined financial statements of the Eugene Water & Electric Board (EWEB) as of and for the year ended December 31, 2012 and have issued our report thereon dated February 22, 2013. We conducted our audit 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 of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether EWEB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-010-000 to 162-010-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control over financial reporting.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

The results of our tests disclosed no matters of noncompliance with those provisions that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

REPORT OF INDEPENDENT AUDITORS ON THE EUGENE WATER & ELECTRIC BOARD'S COMPLIANCE AND CERTAIN ITEMS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON AUDITING STANDARDS (continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered EWEB's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of EWEB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of EWEB's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect EWEB's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of EWEB's financial statements that is more than inconsequential will not be prevented or detected by EWEB's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by EWEB's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of EWEB's management, the Board of Commissioners, and the Secretary of State, Division of Audits of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

For Moss Adams LLP
Portland, Oregon
February 22, 2013

Rely on us.

EWEB

Eugene Water & Electric Board
500 East 4th Avenue
Eugene OR 97401

www.eweb.org