EWEB

Eugene Water & Electric Board

Independent Auditor's Reports and Financial Statements

December 31, 2013 and 2012

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Eugene Water & Electric Board

Board of Commissioners

Mr. John Simpson, "At Large," President

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

Mr. Steve Mital, Wards 1 & 8, Member

Mr. James Manning, Wards 6 & 7, Member

Mr. Dick Helgeson, Wards 2 & 3, Member

Officers

Mr. Roger Gray, General Manager, Secretary

Ms. Taryn Johnson, Assistant Secretary

Ms. Catherine D. Bloom, Treasurer

Ms. Susan Eicher, Assistant Treasurer

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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, 2013 and 2012, 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, 2013 and 2012, 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 Matters
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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

For Moss Adams LLP
Portland, Oregon
March 7, 2014

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 2013, EWEB had 519 employees serving the Eugene community of approximately 159,600 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 51,000 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 build 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	A+	Aa3	AA-
Water System	AA+	Aa2	AA

During 2013, Fitch Ratings reevaluated the Electric Utility credit rating and downgraded their rating from AA- to A+. The rating action was based on their assessment of the Board’s current and projected financial metrics, including debt service ratio. No other rating agency changed their rating for the Electric Utility or the Water Utility. Also during 2013, the Board revised financial policies to adjust the Electric Utility debt service ratio target from AA to A.

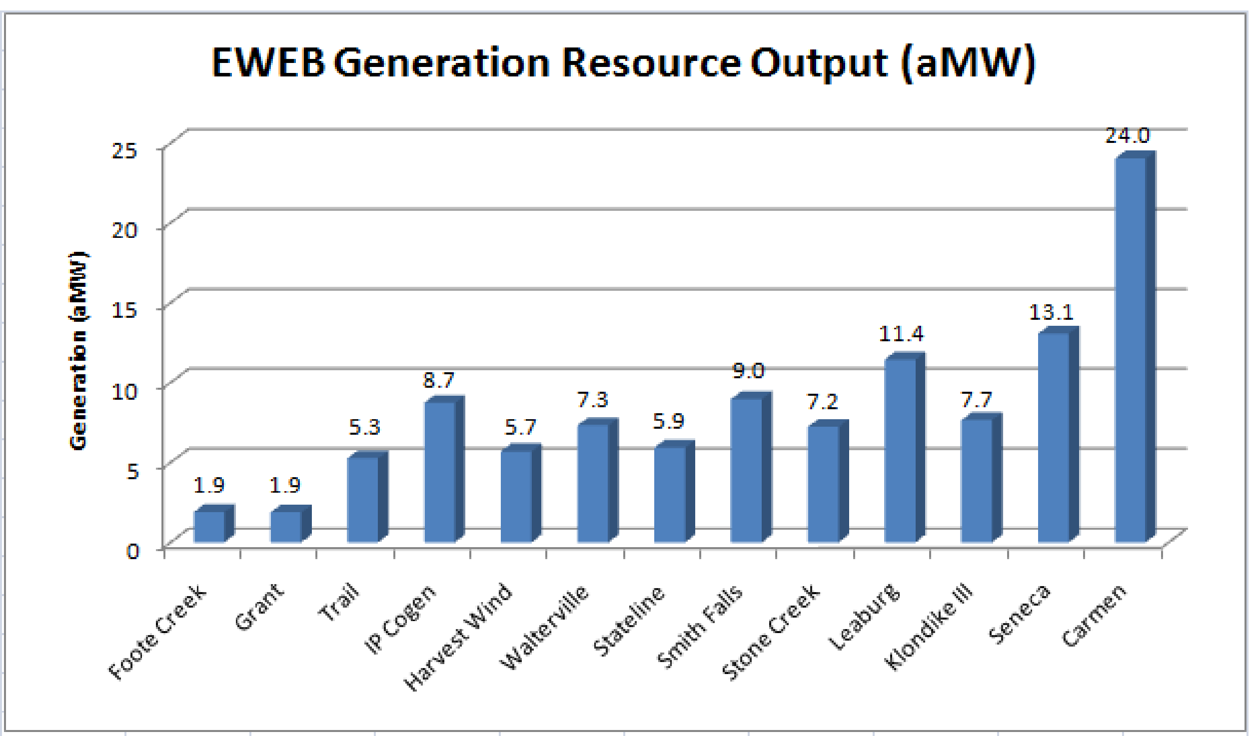
Electric System

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 77% of revenues in 2013 with wholesale sales and regulatory credits accounting for 23% of revenues. Heating load and general economic conditions are the primary influences on retail sales.

EWEB sets budgets and power supply forecasts conservatively. The 2013 budget assumed available water for generation would be 90% of the historical average. Water available for generation in 2013 was 95% of normal (104% and 106% in 2012 and 2011, 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 by prices obtainable for excess generation in the wholesale markets. Substantial wholesale sales activity can complement sales to retail customers and provides a stabilizing portfolio effect in years when wholesale prices are at or higher than budget. Conversely, when wholesale revenues are below budget, this activity will not provide the expected support for retail rates and may cause upward rate pressures. The Board also uses forward physical power 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 remained low. For 2013 and 2012, the Board elected draws upon reserves. In 2013, the Board drew upon the pension and medical reserve to increase the funding of the Post Employment Medical Trust and decrease the unfunded actuarial liability. In 2012, reserves were used to cover some budgeted operating expenses.



All Generation Resources (in aMW): EWEB 109, BPA 274, Total 383

2013 Load: 284 aMW

EWEB contracts with BPA for the purchase of power to serve load. 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 market purchases and sales to balance supply and load.

The following analysis focuses on financial position at December 31, 2013 and financial results of 2013 in comparison to 2012 and 2011. Financial position reflects assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Financial results are activities during a year leading to net income or what is known for governmental entities as the "change in net position."

Financial Summary and Analysis

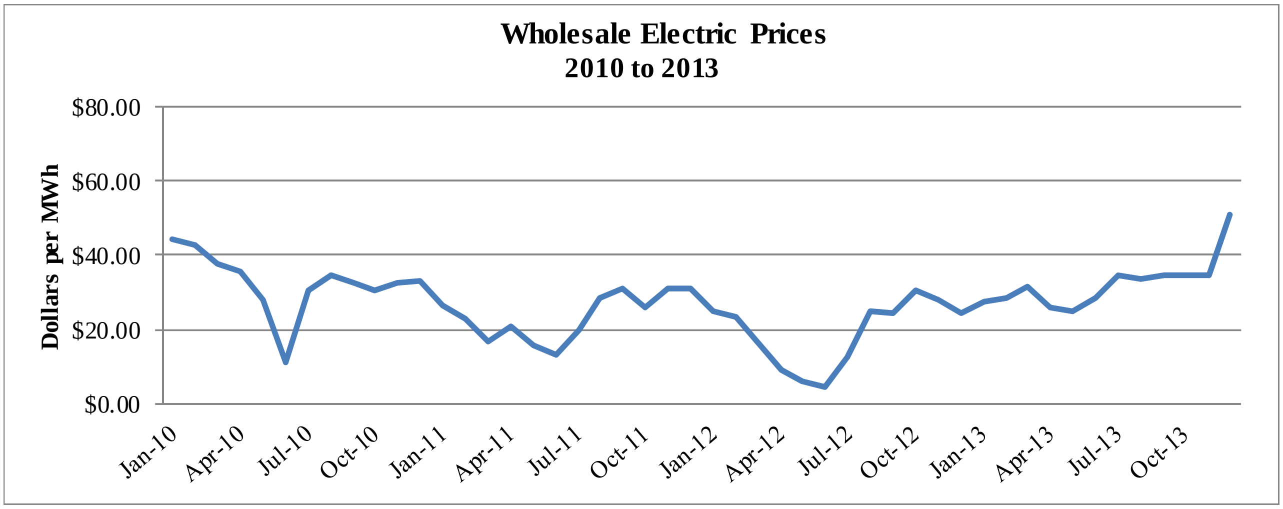
The Electric System's overall financial results improved for 2013 compared to 2012. The Board continues to feel the impact of the slow recovery from the recession, but overall retail load (local consumption) increased 1.4% from 2012 and was nearly the same 2011 load. Within retail rate classes, residential load increased 4.1% and commercial and industrial consumption decreased 0.32%.

Residential, commercial and industrial sales increased by $10.4 million from 2012 and $20.2 million from 2011. The largest increase was in residential, including the increased heating load due to the extreme cold weather event of December 2013. Rate increases of 4.0% in February and 1.75% in November 2013, 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.

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 and $3.4 million in 2012 and 2011, respectively.

Overall, operating revenue was up $5.7 million from 2012, but decreased $11.6 million from 2011. The increase in revenue for 2013 is attributable to the changes in retail rates and in the wholesale market sales. Wholesale market and other sales increased $2.3 million from 2012, but were down $23.3 million from 2011. Wholesale power prices continue to be lower than historical averages, but showed some improvement in 2013. Offsetting the increase in prices was the decrease in volume of sales due to lower streamflows and generation. Annual average prices were $32, $19, and $23 in 2013, 2012, and 2011, respectively. Wholesale sales volume decreased during 2013 by 25.5%, and revenue increased by 1.5%. In 2012, sales volume had decreased 15.9%, and revenue decreased by 27%. The year of 2011 saw the trend of increase in volume and increase in revenue, with an increase in volume of 61.8% and increase in revenue of 5.8%.

The graph below shows wholesale prices over the past three years as well as the volatility of those prices. The primary drivers of 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.



	2010	2011	2012	2013
Annual Price Average	*$ 32.72*	*$ 23.54*	*$ 19.14*	*$ 32.43*

Operating revenue included the recognition of previously deferred revenue in the amounts of $6.9 million and $8.4 million, respectively, for the years 2012 and 2011. During 2012, all previously deferred revenue had been recognized as income. 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, with the intent 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 were $96 thousand more than 2012, but have decreased $15.0 million compared to 2011. Purchased power expense increased $7.0 million compared to 2012 and decreased $3.3 million from 2011. During the last two years, the expense for purchase of power from BPA has remained reasonably constant. The changes in purchased power expense are primarily driven by price of market purchases to serve load or for hedging. Wheeling expense has increased compared to both 2012 and 2011, but at a lower rate than purchased power. Customer accounting expense increased by $211 thousand from 2013 but has decreased by $291 thousand from 2011. Until close to the year end, customer accounting was on course to be under the prior year. In December, EWEB's service area experienced an extreme weather event with temperatures below zero. The Board elected to devote $660 thousand of resulting higher revenue due to increased load to the Customer Care program to assist customers with high bills. The increase in customer care support and the write off of some bad debt make up most of the increase.

The increase in purchased power was offset by a large decrease in conservation, and administrative and general expenses. Most of these savings were the result of cost cutting and budget revisions in 2012 that included reductions in conservation programs and related expenses as well as in conservation and administrative staff. In 2012, 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. Additional administrative and general expense savings were achieved when the electric utility made a deposit of $7.0 million into the Other Post Retirement Benefits Trust (OPEB Trust) and lowered the annual expense and unfunded actuarial liability. Transmission and distribution expense decreased $785 thousand from 2012 and was nearly the same as 2011. The decrease from 2012 is due to one time expenses incurred in 2012 for work to assist in power restoration for other utilities on the east coast that were affected by Hurricane Sandy. All of these expenses were recovered through billing to those utilities under mutual aid agreements.

Selected Financial Data
(*in millions of dollars*)

	2013	2012	2011
Operating revenues	$ 238	$ 232	$ 263
Operating expenses	(208)	(208)	(223)
Net operating income	30	24	40
Non-operating revenues	8	7	8
Non-operating expenses	(16)	(16)	(30)
Income before contributed capital	22	15	18
Contributed capital	2	2	3
Change in net position	$ 24	$ 17	$ 21
Deferred outflows of resources	$ 3	$ 4	$ -
Total assets and deferred outflows	$ 717	$ 698	$ 659
Deferred inflows of resources	$ 5	$ 4	$ 3
Total liabilities	345	351	330
Net position			
Net investment in capital assets	149	154	167
Restricted	17	17	17
Unrestricted	201	172	142
Total net position	367	343	326
Total liabilities and net position	$ 717	$ 698	$ 659

Total assets and deferred outflows at December 31, 2013 were $21 million more than in 2012 and $58.0 million more than in 2011. The change from 2012 is primarily due to an increase in the balances of prepaid expenses, cash and investment balances, receivables, and materials and supplies. The largest single increase was in the pre-paid balance when the deposit of $7.0 million into the OPEB Trust was recorded as a prepayment that will be recognized over a 20 year period. Total cash and investments increased $3.9 million, with a $14.9 million increase in unrestricted cash and investments and decrease of $3.7 and $7.2 million in designated and restricted cash, respectively. The increase in unrestricted reflects better than forecasted wholesale sales of power. Decreases in designated and restricted are due to the use of restricted bond funds and the depletion of funds designated for Carmen Smith relicensing. The changes in assets and deferred outflows for 2012 were due primarily to an increase in restricted cash upon the receipt of $40 million in proceeds from the issuance of 2012 bonds.

Preliminary investigations increased by $2.7 million as expenses for the relicensing of the Carmen-Smith facility continued at a reduced rate while awaiting approval of the license. Spending on the relicensing of Carmen-Smith was $8.8 million in 2012 and $6.2 million in 2011, and is included in preliminary investigations under the non-current general asset category of the statement of net position.

Electric Utility plant in service and construction work in process for 2013 increased by $21.6 million. Significant completed work added to plant in service included work on a backup control center, underground conductor work and improvements to the Leaburg Fish ladder. Construction work in process at year end included a project to implement an enterprise wide work and asset management system and ongoing work to improve the downtown network. Total plant in service increased $13.8 million in 2012, with significant plant additions consisting primarily of improvements to the distribution system and construction work-in-progress for the Metro Ethernet and distribution system. Plant additions for 2011 included additions to the Carmen-Smith and Leaburg-Walterville hydro facilities, and distribution system improvements.

Capital Assets
(*in millions of dollars*)

	2013	2012	2011
Production and land	$ 207	$ 206	$ 210
Transmission and distribution	339	326	311
General plant	161	153	150
Total utility plant in service	$ 707	$ 685	$ 671

Property held for future use increased by $2.9 million in 2012 and remained unchanged in 2013. The increase in 2012 was attributable to the purchase of a building and land intended to be used as a future site for headquarter's operations if the current site is vacated.

In 2013, $1.7 million was added to non-utility property, with additions consisting of headquarters property declared surplus and remaining steam plant site land. $2.6 million was added to non-utility property in 2012 after 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.

Total liabilities and deferred inflows decreased by $2.0 million during 2013 after having increased by $16.4 million from 2011 to 2013. In 2013, no new bonds issues were added to long-term debt and ongoing debt service payments reduced the total debt by $7.8 million. The decrease in debt was offset by an increase in payables, primarily for purchased power. Compared to 2013, liabilities and deferred inflows had increased as a result of issuance of bonds in 2011 and 2012 and the effects of increases in payables for purchased power and trade payables. Long-term debt increased by $33.6 million during 2012 when the Electric System issued a total of $71.2 million in revenue and refunding bonds, 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. 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.

Overall the change in net position for the Electric Utility was $24.1 million compared to $17.2 in 2012 and $21.9 in 2011.

Liabilities

(*in millions of dollars*)

	2013	2012	2011
Current liabilities	$ 45	$ 39	$ 42
Noncurrent liabilities	390	312	288
Total liabilities	$ 435	$ 351	$ 330

Water System

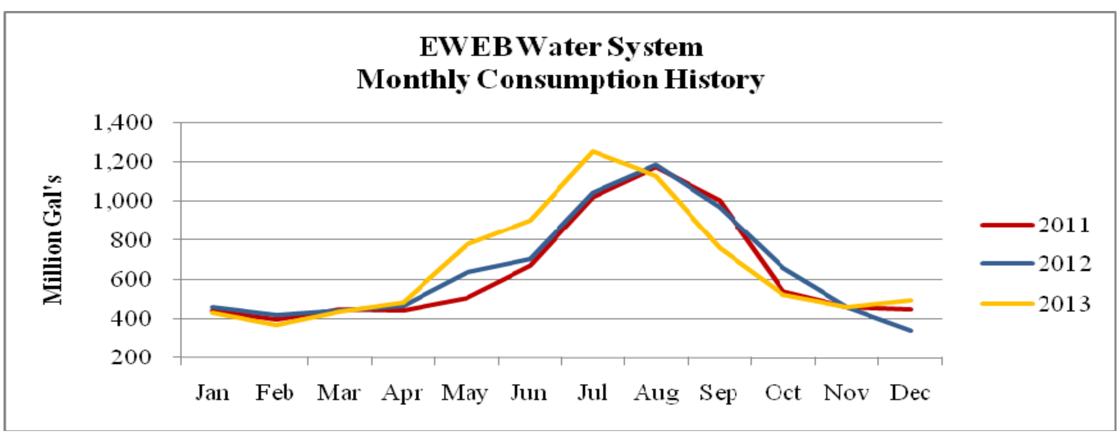
The Water System provides water to all areas within the city, and two water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, one of the largest treatment plants in Oregon. Water is pumped from the Hayden Bridge Filtration Plant into the distribution 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 was implemented in 2013 and resulted in significant rate increases for residential and commercial water customers.

During 2013, the Water System sold 8.0 billion gallons of water, 769 million gallons of which was to the water districts. This was approximately 256 million gallons more than the volume sold in 2012 and 482 million gallons more than in 2011. The February 2013 20% rate increase and an unusually dry spring and summer caused consumption to increase over 2012. During 2012 and 2011, mild weather conditions predominated through the summers and water usage had generally decreased from historical summer patterns.

Residential sales revenue was up $3.7 million, compared to 2012 and $4.7 million compared to 2011. Combined residential and commercial sales revenue was $6.2 million more than 2012 and $8.0 million more than 2011. Sales to water districts and wholesale customers increased $152 thousand from 2012 and $232 thousand from 2011. The water utility added the City of Veneta as a new wholesale customer in 2013.



Yearly Consumption (MGal's)

2011: 7,549
2012: 7,775
2013: 8,022

Operating expenses were up $1.2 million from 2012 compared to an increase of $2.0 million from 2011. The largest increase was in transmission and distribution expense, which were up from 2012 by $777 thousand, and was $729 thousand more than 2011. The increase in transmission and distribution expense is driven by an increase in repair and maintenance of water mains. Administrative and general and customer accounting expenses combined increased by $398 thousand, due primarily to changes in how support services are allocated between the water and electric utility. These expenses were $995 thousand more than 2011. Some administrative and general expense savings were achieved compared to 2012 and 2011 when the water utility made a deposit of $1.3 into the Other Post Retirement Benefits Trust (OPEB Trust) and lowered the annual expense and unfunded actuarial liability, partially offsetting the increase due to the change in intercompany allocations.

Contributed capital consisting of system development charges and contributions-in-aid and contributed assets was up by $1.4 million from 2012, but has decreased by $756 thousand from 2011. Contributed capital and system development activity has yet to reach pre-recession levels.

Selected Financial Data
(*in millions of dollars*)

	2013	2012	2011
Operating revenues	$ 32.6	$ 26.2	$ 24.3
Operating expenses	(21.9)	(20.7)	(19.8)
Net operating income	10.7	5.5	4.5
Non-operating revenues	1.0	0.5	0.4
Non-operating expenses	(3.7)	(3.8)	(3.4)
Income before contributed capital	8.0	2.2	1.5
Contributed capital	2.9	1.5	3.0
Change in net position	$ 10.9	$ 3.7	$ 4.5
Deferred outflows	$ 0.8	$ 0.9	
Total assets and deferred outflows	$ 167.7	$ 157.8	$ 156.1
Deferred inflows	$ 0.6	$ 0.3	$ -
Total liabilities	72.3	77.8	76.0
Net position			
Net investment in capital assets	78.0	72.9	68.7
Restricted	3.6	3.9	4.6
Unrestricted	13.1	7.1	6.8
Total net position	94.7	83.9	80.1
Total liabilities and net position	$ 167.7	$ 157.8	$ 156.1

Total assets and deferred outflows in the water utility increased by $10 million from 2012 and $11 million from 2011. Unrestricted cash was up by $2.6 million from 2012 and $3.1 million from 2011, with the primary factor being rate increases. Unrestricted cash ended the year at $4.2 million, the highest balance in several years. Receivables also increased from 2012 and 2011, also with rate increases as a primary factor. Designated cash balances, mostly for the capital improvement and operating reserves, increase $1.2 million after having decreased in 2012. Restricted cash and investments, consisting of debt service funds and proceeds from bonds restricted to use for capital improvements decreased $7.7 million from 2012 and $9.2 million from 2011, with the changes primarily due to use of bond funds for ongoing capital work.

Overall, plant in service and construction work in progress increased by $14.1 million from 2012 and $24.2 from 2011. Significant plant additions in 2013 included water line extensions and improvements to the water filtration plant. Additions to Water System plant in 2012 were primarily water mains, and additions in 2011 included reservoir improvements, filtration plant expansion, and water main additions and improvements. Construction work in process at the end of 2013 included improvements to the water intake screen and other improvements at the water filtration plant, water main improvements and the cost of the ongoing implementation of the work and the asset management system. Construction work in progress for 2012 and 2011 included a reservoir replacement and improvements at the filtration plant.

Capital Assets
(*in millions of dollars*)

	2013	2012	2011
Production and land	$ 60	$ 54	$ 53
Transmission and distribution	131	126	120
General plant	31	30	29
Total utility plant in service	$ 222	$ 210	$ 202

In 2011, the Water System issued $17.3 million in bonds to finance capital projects that are part of the capital improvement plan. At the end of 2011, an additional $15.0 million in long-term debt had been added to the balance sheet. No new debt was issued in 2013 or in 2012.

The change in net position for 2013 was $10.9 million from 2012, and $14.7 million from 2011. The changes in net position included the effects of rate increases of 20% in 2013, 5% in 2012, and 7.1% in 2011.

Liabilities
(*in millions of dollars*)

	2013	2012	2011
Current liabilities	$ 6	$ 5	$ 6
Noncurrent liabilities	72	68	70
Total liabilities	$ 78	$ 73	$ 76

Outlook

The local economy continues a slow recovery from the recession that started in 2008. Ratepayers are still struggling economically and have clearly sent the message they wish to minimize or eliminate future rate increases. The Board is faced with increasing costs from BPA and with renewable resources required to meet renewable standards while at the same time 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 2014 budget and rates were approved with an increase of 4.0% for the Electric Utility, and a 5.7% rate increase for the Water Utility. The Water Utility rate increase includes a 2.7% increase that will be targeted to building reserves needed for the development and implementation of a second water source.

The Board continues to pursue 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 Electric Utility 2014 budget for operating and maintenance expense has decreased from the 2013 budget by $7.0 million, with reduced expenses anticipated in conservation expense and administrative and general expense. The 2014 Water Utility budget decreased by $800 thousand, primarily due to savings in administrative and general expense.

A license approval from the Federal Energy Regulatory Commission for the Board's Carmen-Smith Hydroelectric Project had been anticipated for several years and is now expected in 2014. Corresponding construction under the license requirements will begin after license approval, with an anticipated bond issue providing the funds for construction as required.

STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
ASSETS						
Capital assets						
Utility plant in service	$ 706,852,202	$ 684,999,356	$ 221,915,523	$ 209,614,427	$ 928,767,725	$ 894,613,783
Less accumulated depreciation	352,189,557	336,564,454	94,453,719	89,554,151	446,643,276	426,118,605
Net utility plant in service	354,662,645	348,434,902	127,461,804	120,060,276	482,124,449	468,495,178
Property held for future use	3,436,406	3,435,734	968,578	968,578	4,404,984	4,404,312
Construction work in progress	11,523,260	11,818,950	7,737,813	5,969,029	19,261,073	17,787,979
Net utility plant	369,622,311	363,689,586	136,168,195	126,997,883	505,790,506	490,687,469
Current assets						
Cash and cash equivalents	8,660,695	11,813,883	4,198,847	1,640,554	12,859,542	13,454,437
Short-term investments	17,792,962	6,845,739	-	-	17,792,962	6,845,739
Restricted cash and investments	41,498,512	55,311,508	10,059,826	17,781,543	51,558,338	73,093,051
Designated cash and investments	54,514,769	65,027,616	4,063,038	2,811,101	58,577,807	67,838,717
Receivables, less allowances	35,572,170	32,395,845	3,486,690	2,236,069	39,058,860	34,631,914
Due from Water System	848,767	830,899	-	-	-	-
Materials and supplies	4,910,025	3,104,595	1,064,553	699,251	5,974,578	3,803,846
Prepaids	8,628,194	3,068,468	1,708,311	428,137	10,336,505	3,496,605
Option premiums short-term	1,120,600	1,250,280	-	-	1,120,600	1,250,280
Total current assets	173,546,694	179,648,833	24,581,265	25,596,655	197,279,192	204,414,589
Non-current assets						
Investments - restricted	9,647,171	3,015,610	2,000,740	-	11,647,911	3,015,610
Investments - designated	24,716,985	17,946,963	-	-	24,716,985	17,946,963
Investments - unrestricted	10,216,259	3,138,693	-	-	10,216,259	3,138,693
Prepaid retirement obligation	11,960,640	12,904,900	2,625,515	2,832,792	14,586,155	15,737,692
Receivables, conservation and other	4,801,343	4,975,404	221,125	32,410	5,022,468	5,007,814
Due from Water System	18,584,729	19,212,749	-	-	-	-
Investment in WGA	(638,549)	1,802,851	-	-	(638,549)	1,802,851
Investment in Harvest Wind	27,571,629	27,304,913	-	-	27,571,629	27,304,913
Preliminary investigations	39,745,670	37,057,159	-	-	39,745,670	37,057,159
Other assets	24,410,410	23,188,616	1,291,800	1,380,991	25,702,210	24,569,607
Total non-current assets	171,016,287	150,547,858	6,139,180	4,246,193	158,570,738	135,581,302
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources	2,936,267	4,047,517	843,318	925,197	3,779,585	4,972,714
Total assets and deferred outflows of resources	$ 717,121,559	$ 697,933,794	$ 167,731,958	$ 157,765,928	$ 865,420,021	$ 835,656,074

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

See accompanying notes.

STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
LIABILITIES						
Current liabilities						
Payables	$ 25,109,525	$ 21,908,209	$ 1,506,492	$ 1,130,209	$ 26,616,017	$ 23,038,418
Accrued payroll and benefits	3,554,112	3,688,205	716,923	548,229	4,271,035	4,236,434
Interest payable	236,466	245,821	-	-	236,466	245,821
Note payable	1,243,370	1,186,582	-	-	1,243,370	1,186,582
Due to Electric System	-	-	848,767	830,899	-	-
Payable from restricted assets						
Accrued interest on long-term debt	5,021,302	4,623,160	896,548	918,112	5,917,850	5,541,272
Long-term debt due within one year	10,340,000	7,400,000	1,780,000	1,325,000	12,120,000	8,725,000
Total current liabilities	45,504,775	39,051,977	5,748,730	4,752,449	50,404,738	42,973,527
Non-current liabilities						
Long-term debt	296,008,315	308,333,861	47,724,145	49,523,209	343,732,460	357,857,070
Due to Electric System	-	-	18,584,729	19,212,749	-	-
Other liabilities	3,267,083	3,407,987	282,849	72,601	3,549,932	3,480,588
Total liabilities	344,780,173	350,793,825	72,340,453	73,561,008	397,687,130	404,311,185
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	5,119,369	4,044,505	628,804	311,522	5,748,173	4,356,027
NET POSITION						
Net investment in capital assets	149,739,166	152,834,356	78,008,145	72,895,012	227,747,311	225,729,368
Restricted	16,948,633	17,459,188	3,603,107	3,900,652	20,551,740	21,359,840
Unrestricted	200,534,218	172,801,920	13,151,449	7,097,734	213,685,667	179,899,654
Total net position	367,222,017	343,095,464	94,762,701	83,893,398	461,984,718	426,988,862
Total liabilities, deferred inflows of resources and net position	$ 717,121,559	$ 697,933,794	$ 167,731,958	$ 157,765,928	$ 865,420,021	$ 835,656,074

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, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
Residential	$ 93,465,978	$ 85,337,500	$ 17,628,387	$ 13,924,614	$ 111,094,365	$ 99,262,114
Commercial and industrial	90,305,936	88,015,788	14,020,297	11,513,438	104,326,233	99,529,226
Sales for resale and other	54,288,305	52,030,745	934,988	782,540	55,223,293	52,813,285
Regulatory credits - net	-	6,944,050	-	-	-	6,944,050
Operating revenues	238,060,219	232,328,083	32,583,672	26,220,592	270,643,891	258,548,675
Purchased power	108,998,086	101,960,527	-	-	108,998,086	101,960,527
System control	6,174,737	6,623,647	-	-	6,174,737	6,623,647
Wheeling	12,562,973	12,246,671	-	-	12,562,973	12,246,671
Steam and hydraulic generation	11,426,464	11,336,093	-	-	11,426,464	11,336,093
Transmission and distribution	17,936,464	18,721,597	7,840,083	7,063,149	25,776,547	25,784,746
Source of supply, pumping and purification	-	-	3,063,429	3,118,231	3,063,429	3,118,231
Customer accounting	9,815,887	9,605,099	1,414,680	1,164,333	11,230,567	10,769,432
Conservation expenses	3,679,777	6,890,817	213,316	323,198	3,893,093	7,214,015
Administrative and general	19,882,208	23,800,403	4,193,908	4,046,176	24,076,116	27,846,579
Depreciation on utility plant	17,494,697	16,690,026	5,130,558	4,973,011	22,625,255	21,663,037
Operating expenses	207,971,293	207,874,880	21,855,974	20,688,098	229,827,267	228,562,978
Net operating income	30,088,926	24,453,203	10,727,698	5,532,494	40,816,624	29,985,697
Investment earnings	893,593	604,436	77,349	78,472	970,942	682,908
Interest earnings, Water	1,159,177	1,177,806	-	-	-	-
Allowance for funds used during construction	64,344	51,751	39,838	26,659	104,182	78,410
Other revenue	5,675,530	4,694,171	839,102	434,850	6,514,632	5,129,021
Non-operating revenues	7,792,644	6,528,164	956,289	539,981	7,589,756	5,890,339

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, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
Other revenue deductions	$ 3,584,603	$ 3,038,927	$ 275,255	$ 243,532	$ 3,859,858	$ 3,282,459
Interest expense and related amortization	12,843,004	12,595,278	2,318,813	2,411,080	15,161,817	15,006,358
Interest expense, Electric	-	-	1,159,177	1,177,806	-	-
Allowance for borrowed funds used during construction	(55,513)	(48,834)	(22,662)	(15,500)	(78,175)	(64,334)
Non-operating expenses	16,372,094	15,585,371	3,730,583	3,816,918	18,943,500	18,224,483
Income before capital contributions	21,509,476	15,395,996	7,953,404	2,255,557	29,462,880	17,651,553
Contributions in aid of construction	2,459,663	1,693,346	962,030	648,871	3,421,693	2,342,217
Contributed plant assets	157,414	68,900	519,115	84,239	676,529	153,139
System development charges	-	-	1,434,754	798,065	1,434,754	798,065
Capital contributions	2,617,077	1,762,246	2,915,899	1,531,175	5,532,976	3,293,421
Change in net position	24,126,553	17,158,242	10,869,303	3,786,732	34,995,856	20,944,974
Total net position at beginning of year	343,095,464	325,937,222	83,893,398	80,106,666	426,988,862	406,043,888
Total net position at end of year	$ 367,222,017	$ 343,095,464	$ 94,762,701	$ 83,893,398	$ 461,984,718	$ 426,988,862

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, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 247,409,346	$ 242,690,193	$ 31,119,637	$ 25,985,487	$ 278,528,983	$ 268,675,680
Other receipts	2,913,245	1,833,042	794,299	401,860	3,707,544	2,234,902
Power purchases	(105,449,528)	(101,294,772)	-	-	(105,449,528)	(101,294,772)
Payments to employees	(34,113,566)	(37,414,479)	(8,326,188)	(9,242,632)	(42,439,754)	(46,657,111)
Payments to suppliers	(45,113,639)	(52,942,294)	(7,927,374)	(7,292,031)	(53,041,013)	(60,234,325)
Payment toward unfunded liability-OPEB	(5,740,000)	-	(1,260,000)	-	(7,000,000)	-
Contributions in lieu of taxes	(11,988,001)	(12,675,454)	-	-	(11,988,001)	(12,675,454)
Net cash from operating activities	47,917,857	40,196,236	14,400,374	9,852,684	62,318,231	50,048,920
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(170,121,168)	(197,473,947)	(19,751,116)	(9,542,606)	(189,872,284)	(207,016,553)
Proceeds from sale and maturities of investments	164,579,731	181,312,921	20,902,888	16,582,548	185,482,619	197,895,469
Interest on investments	2,574,948	2,349,714	118,289	297,919	2,693,237	2,647,633
Distributions from equity investment in Harvest Wind	1,790,000	1,694,000	-	-	1,790,000	1,694,000
Distributions from equity investment in WGA	200,000	400,000	-	-	200,000	400,000
Net cash from investing activities	(976,489)	(11,717,312)	1,270,061	7,337,861	293,572	(4,379,451)
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	1,160,763	1,179,319	(1,160,763)	(1,179,319)	-	-
Lease receipts/(payments) to Electric from Water	401,289	382,733	(401,289)	(382,733)	-	-
Principal payments	(2,311,582)	(2,082,386)	-	-	(2,311,582)	(2,082,386)
Interest payments	(2,960,916)	(2,968,244)	-	-	(2,960,916)	(2,968,244)
Net cash from non-capital financing activities	(3,503,169)	(3,281,301)	(1,769,329)	(1,769,329)	(5,272,498)	(5,050,630)

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, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of bonds	$ -	$ 78,560,355	$ -	$ -	$ -	$ 78,560,355
Refunding of bonds	-	(35,920,000)	-	-	-	(35,920,000)
Principal payments	(6,275,000)	(7,470,000)	(1,325,000)	(1,270,000)	(7,600,000)	(8,740,000)
Bond issuance costs	-	(621,735)	-	-	-	(621,735)
Additions to plant and non-utility property, net	(24,865,760)	(25,448,205)	(11,316,812)	(10,453,902)	(36,182,572)	(35,902,107)
Interest payments	(10,323,257)	(10,357,744)	(2,203,471)	(2,315,263)	(12,526,728)	(12,673,007)
Additions to preliminary surveys and other	(4,170,480)	(8,976,682)	-	-	(4,170,480)	(8,976,682)
Capital contributions	2,617,076	1,762,246	210,249	1,519,538	2,827,325	3,281,784
Net cash from capital and related financing activities	(43,017,421)	(8,471,765)	(14,635,034)	(12,519,627)	(57,652,455)	(20,991,392)
CHANGE IN CASH AND CASH EQUIVALENTS	420,778	16,725,858	(733,928)	2,901,589	(313,150)	19,627,447
CASH AND CASH EQUIVALENTS, beginning of year	45,513,620	28,787,762	11,876,799	8,975,210	57,390,419	37,762,972
CASH AND CASH EQUIVALENTS, end of year Including cash and cash equivalents restricted or designated: $37,273,703 and $6,944,024 ($33,699,737 and $10,236,245 in 2012) for Electric and Water, respectively	$ 45,934,398	$ 45,513,620	$ 11,142,871	$ 11,876,799	$ 57,077,269	$ 57,390,419

NON-CASH CAPITAL ACTIVITY:
In 2013, plant assets contributed by developers were $157,414 for the electric system, and $68,900 for the water system ($68,900 for the electric system, and $84,239 for the water system in 2012)

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, 2013 and 2012

	Electric System		Water System		Total System	
	2013	2012	2013	2012	2013	2012
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Net operating income	$ 30,088,926	$ 24,453,203	$ 10,727,698	$ 5,532,494	$ 40,816,624	$ 29,985,697
Adjustments to reconcile net operating income to net cash from operating activities						
Depreciation, including allocated	18,665,505	17,811,307	5,130,558	5,230,617	23,796,063	23,041,924
Other revenue	3,036,528	2,104,216	785,494	401,109	3,822,022	2,505,325
Other revenue deductions	(276,702)	(119,351)	(244,643)	(231,891)	(521,345)	(351,242)
(Increase) decrease in assets						
Receivables	(3,164,790)	3,482,798	(1,455,230)	(234,355)	(4,620,020)	3,248,443
Materials and supplies	(1,805,430)	(47,020)	(447,742)	(2,960)	(2,253,172)	(49,980)
Prepayments and special deposits	(5,430,046)	642,919	(1,197,734)	(140,624)	(6,627,780)	502,295
Conservation loans, net	392,048	(254,918)	-	-	392,048	(254,918)
Long-term receivables, other	49,000	199,156		-	49,000	199,156
Prepaid retirement obligation	-	-	207,277	207,277	207,277	207,277
Other assets	742,115	5,264,720	15,894	70,759	758,009	5,335,479
(Increase) decrease in deferred outflows of resources						
Decrease in fair value of hedging derivatives	895,832	362,678	-	-	895,832	362,678
Increase (decrease) in liabilities						
Accounts payable, accrued payroll and benefits	3,790,910	(1,336,729)	561,520	(914,178)	4,352,430	(2,250,907)
Other liabilities	(140,903)	(2,868,859)	-	-	(140,903)	(2,868,859)
Increase (decrease) in deferred inflows of resources	1,074,864	(9,497,884)	317,282	(65,564)	1,392,146	(9,563,448)
Net cash from operating activities	$ 47,917,857	$ 40,196,236	$ 14,400,374	$ 9,852,684	$ 62,318,231	$ 50,048,920

See accompanying notes.

Note 1 – Summary of significant accounting policies

Reporting Entity
The 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 (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 expenses are eliminated in the Total Systems columns of the financial statements (see Note 12).

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 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 resulting in the consumption or acquisition of net assets in one period 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. The Statement also renames the *Statement of Net Assets* (representing the difference between assets and liabilities) to *Statement of Net Position* (representing the difference between assets and deferred outflows of resources 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 the 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.

Effective January 1, 2013, the Board adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement requires reclassification of certain items previously reported as assets or liabilities to deferred outflows of resources or deferred inflows of resources. In addition, certain items previously reported as assets and liabilities are now recognized as outflows of resources (expenses) or inflows of resources (revenues). GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies recognition of deferred outflows and deferred inflows should be limited to instances specifically identified in authoritative GASB pronouncements. Statement No. 65 amends items previously classified as assets and liabilities to be consistent with GASB Concept Statement No. 4. Statement No. 65 also limits the use of the term *deferred* in financial statement presentations.

Implementation of Statement No. 65 resulted in the reclassification of unamortized bond issuance costs from an asset to a regulatory asset included in other assets on the Statements of Net Position. Unamortized losses on bond refunding were reclassified from a liability to a deferred outflow. Also, deferred sick leave and net pension obligation were reclassified from regulatory liabilities to deferred inflows at December 31 for the two years presented. There was no effect on income for 2013 or net position at the beginning of 2013.

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.

In prior presentations, Contributions in lieu of tax payments (CILT) were shown as a separate expense line item on the Statement of Revenues, Expenses and Changes in Net Position. After an examination of the appropriate accounting treatment and cost of service analysis design for rate setting, the Board determined that CILT is a tax to be treated as a pass through rather than a component of gross revenue and expense. Consequently, operating revenues are presented net of CILT, and CILT collected is treated as a liability in accounts payable.

Member Deposits in the Public Agency Network was presented as an other liability. It has been reclassified to a payable for 2013 and 2012.

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

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 both readily convertible to known amounts of cash and so near maturity 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.

Restricted Assets
Cash and investments 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, 2013, the Electric System had $39.7 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 ($37.1 million at December 31, 2012).

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 & Deferred Inflows
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.

Regulatory Assets

- **Conservation Assets**
  Conservation assets for the Electric System represent installations of energy saving measures at customer properties. 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 position.

- **Unamortized Bond Issue Costs**
  Unamortized bond issue costs represent the remaining expense related to various debt issuances. The asset is amortized over the duration of the related debt and recognition of these costs is included in the rate making process.

- **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 Regulatory Assets within Other Assets and Deferred Inflows. 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 Regulatory Assets within Other Assets and Deferred Inflows.

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

- **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.

Deferred Inflows

- **Inventory Adjustment**
  An inventory adjustment was made for unrecorded items purchased and paid for in previous periods. The deferred inflow is reduced as materials are used or written-off.

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

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 deferred outflow 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 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 neither "restricted" nor "net investment in capital assets."

Net position was as follows:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Net investment in capital assets	$ 149,739,166	$ 78,008,145	$ 152,834,356	$ 72,895,012
Restricted for:				
Capital projects	-	-	149,541	-
Customer deposits	-	-	1,845,763	-
Customer care program	1,169,111	-	1,126,397	-
Health care	239,058	52,453	1,447	295
Harvest Wind escrow	2,132,291	-	2,208,608	-
System development charges	-	441,397	-	977,955
Debt service	13,408,173	3,109,257	12,127,432	2,922,402
	16,948,633	3,603,107	17,459,188	3,900,652
Unrestricted	200,534,218	13,151,449	172,801,920	7,097,734
	$ 367,222,017	$ 94,762,701	$ 343,095,464	$ 83,893,398

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 power or water is delivered to and received by the customer. Approximately 10% of 2013 Electric System retail revenues were the result of sales to one industrial customer (10% of retail sales were the result of sales to one customer in 2012). 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, 2013 were $700,000 ($604,000 for 2012) for the Electric System, and $67,000 ($60,000 for 2012) for the Water System.

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

Contributions in Lieu of Taxes
In accordance with ORS 225.270, *Use of surplus earnings*, 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 within the boundaries of the City of Springfield. Total contributions in lieu of taxes for the year ended December 31, 2013 were $11.8 million ($13.9 million for 2012).

Environmental Expenses
Fish and plant habitat enhancements, as well as pollution prevention improvements are expensed or capitalized depending on 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 purchase and sale 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, 2013, hedging derivatives with a fair value of $2.2 million were reported as an other asset and deferred inflow. Hedging derivatives with a fair value of $1.7 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, revenue or expense is recorded as either purchased power or wholesale sales.

Investment Derivatives

Hedging derivatives found through testing to be ineffective are classified as investment derivatives. At that time, the fair value, including any fair value changes previously deferred on the balance sheet, are recorded as investment revenue and a deferred inflow or outflow. A loss of $19,000 was recognized in investment earnings from derivatives in 2013 and a loss of $347,000 was recognized in investment earnings from derivatives in 2012. As of December 31, 2013, investment derivatives with a fair value of ($211,000) ($0, for 2012) were recorded as a deferred outflow and investment revenue. Investment derivatives with a fair value of $192,245 ($0 for 2012) were recorded as a deferred inflow and investment revenue.

	Options and Swaps			
	Hedging Derivatives		Investment Derivatives	
	2013	2012	2013	2012
Notional value	$ 24,294,640	$ 10,673,680	$ 1,415,100	$ -
Fair value - asset	$ 2,186,352	$ 2,625,350	$ 192,245	$ -
Fair value - liability	$ 1,746,353	$ 2,431,088	$ 211,100	$ -
Cash paid	$ 951,000	$ 1,250,280	$ 169,600	$ -
Reference rates	Mid-C index	Mid-C index	Mid-C index	
Dates entered into	1/12 through 11/13	7/11 through 12/12	5/12 through 9/13	
Dates of maturity	1/14 through 12/17	1/13 through 12/15	2/14 through 9/15	

Credit Risk

The Board enters into forward purchase and sale contracts for electricity 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 assigning an internal measure of credit worthiness to the Board’s counterparties and sets limits to the dollar value of business transacted with counterparties. The Board generally chooses not to do business with counterparties with credit risk ratings giving 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. Generally, 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 $440,000. Counterparty credit ratings range from A2 through Baa3.

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 2013 and 2012, 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, 2012	Increases	Decreases	Balance at December 31, 2013
Land	n/a	$ 7,734,574	$ -	$ (845,415)	$ 6,889,159
Intangible assets	n/a	290,643	22,017	-	312,660
Steam production	10-25	10,173,729	-	-	10,173,729
Hydro production	36-50	175,267,846	2,328,341	-	177,596,187
Wind production	25	13,087,182	-	(156,540)	12,930,642
Transmission	33.3-50	77,573,238	4,301,309	-	81,874,547
Distribution	28.5	248,138,022	9,454,026	(283,253)	257,308,795
General plant	3-50	152,734,122	9,806,159	(2,773,798)	159,766,483
Total utility plant in service		684,999,356	25,911,852	(4,059,006)	706,852,202
Accumulated depreciation		(336,564,454)	(18,639,624)	3,014,521	(352,189,557)
Plant not subject to depreciation:					
Property held for future use		3,435,734	672	-	3,436,406
Construction work in progress		11,818,950	23,939,959	(24,235,649)	11,523,260
Net utility plant		$ 363,689,586	$ 31,212,859	$ (25,280,134)	$ 369,622,311

	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

Water Utility Plant

	Depreciable Life-Years	Balance at December 31, 2012	Increases	Decreases	Balance at December 31, 2013
Land	n/a	$ 1,421,662	$ -	$ (921)	$ 1,420,741
Intangible assets	n/a	52,779	3,905	-	56,684
Structure	50	42,076,281	5,685,828	(225,102)	47,537,007
Pumping	20	9,457,176	434,391	-	9,891,567
Purification	25	1,252,909	-	-	1,252,909
Transmission	28.5	17,395,588	49,448	-	17,445,036
Reservoirs	50	23,848,706	-	-	23,848,706
Distribution	28.5	63,974,561	2,662,726	-	66,637,287
Services, meters and hydrants	20-28.5	20,197,756	2,352,916	(126,812)	22,423,860
General plant	3-50	29,937,009	1,624,295	(159,578)	31,401,726
Total utility plant in service		209,614,427	12,813,509	(512,413)	221,915,523
Accumulated depreciation		(89,554,151)	(5,405,493)	505,925	(94,453,719)
Plant not subject to depreciation:					
Property held for future use		968,578	-	-	968,578
Construction work in progress		5,969,029	13,853,401	(12,084,617)	7,737,813
Net utility plant		$ 126,997,883	$ 21,261,417	$ (12,091,105)	$ 136,168,195

	Depreciable Life-Years	Balance at December 31, 2011	Increases	Decreases	Balance at December 31, 2012
Land	n/a	$ 1,421,662	$ -	$ -	$ 1,421,662
Intangible assets	n/a	46,350	6,429	-	52,779
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

(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 as 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 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:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Current				
Debt service reserves	$ 9,334,082	$ 2,367,478	$ 9,330,357	$ 2,366,533
Customer deposit and other	2,631,362	52,453	4,440,970	295
Harvest Wind escrow accounts	2,132,291	-	2,208,608	-
Construction funds	18,068,918	5,560,171	31,665,517	12,962,779
System development charge reserves	-	441,397	-	977,955
Investments for bond principal and interest	9,331,859	1,638,327	7,666,056	1,473,981
Restricted cash and investments	41,498,512	10,059,826	55,311,508	17,781,543
Non-current				
Construction funds	9,647,171	2,000,740	3,015,610	-
Total restricted cash and investments	$ 51,145,683	$ 12,060,566	$ 58,327,118	$ 17,781,543

Designated Cash and Investments

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

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

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

(Note 4 – Cash and investments, continued)

Detailed amounts for designated cash and investments were as follows:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Current				
Power unallocated reserve	$ 17,791,214	$ -	$ 12,092,946	$ -
Power reserve	4,278,925	-	18,884,540	-
Capital improvement reserve	9,267,995	3,676,785	13,340,556	2,382,357
Carmen-Smith reserve	13,029,188	-	8,490,542	-
Operating reserve	6,128,477	386,253	7,283,430	428,744
Pension and medical reserve	4,018,970	-	4,935,602	-
	54,514,769	4,063,038	65,027,616	2,811,101
Non-current				
Power unallocated reserve	4,004,910	-	1,627,655	-
Power reserve	9,042,420	-	1,000,030	-
Carmen-Smith reserve	7,029,340	-	11,517,125	-
Capital improvement reserve	4,640,315	-	-	-
Pension and medical reserve	-	-	3,802,153	-
	24,716,985	-	17,946,963	-
Total designated cash and investments	$ 79,231,754	$ 4,063,038	$ 82,974,579	$ 2,811,101

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, 2013, were $16.6 million. Of the bank balances, $750,000 were covered by federal depository insurance and $15.8 million were collateralized with securities.

Custodial credit risk for deposits is 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 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, *Investments of surplus funds of political subdivisions*.

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. Financial statements for the OSTF may be obtained from the Oregon State Treasurer's website.

As of December 31, 2013, 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	$ 45,067,592	0.00	25%
U.S. Agency Securities				
FHLB		17,033,051		10%
FNMA		28,827,913		16%
FHLMC		24,320,168		14%
FFCB		12,325,693		7%
FAMCA		22,938,560		14%
Other Agency		5,154,352		3%
Subtotal US Agency	AA+	110,599,737	0.84	64%
Municipal Bonds	AA	10,381,348	0.50	6%
Corporate Bonds	AA	9,311,449	0.64	5%
Subtotal all securities		130,292,534	0.80	75%
Total		$ 175,360,126	0.59	100%

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

(Note 4 – Cash and investments, continued)

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	0.00	25%
U.S. Agency Securities				
FHLB		36,669,402		21%
FNMA		17,175,849		10%
FHLMC		25,938,293		15%
FFCB		7,008,492		4%
FAMCA		10,825,280		7%
Other Agency		16,824,789		10%
Subtotal US Agency	AA	114,442,105	0.97	66%
Municipal Bonds	AA	2,194,646	0.91	
Corporate Bonds	AA	14,300,412	0.43	8%
Subtotal all securities		130,937,163	0.91	74%
Total		$ 174,726,545	0.68	99%

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

Concentration risk is 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 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, *Local governments authorized to place limited funds in pool*, to $45.6 million as of December 31, 2013.

The "weighted average maturity in years" calculation assumes 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 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 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. All of the aforementioned investments, 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 2013	Total Carrying Amount 2012
ELECTRIC SYSTEM					
Cash on hand	$ -	$ 12,560	$ -	$ 12,560	$ 12,560
Cash in bank	4,898,652	3,003,019	-	7,901,671	12,475,241
Investments in the State of Oregon local government investment pool	8,480,860	5,645,116	23,894,192	38,020,168	33,031,446
Investments - US Agencies and Corp.	37,766,171	28,009,221	55,337,562	121,112,954	117,580,765
Total electric system	51,145,683	36,669,916	79,231,754	167,047,353	163,100,012
WATER SYSTEM					
Cash in bank	655,485	3,439,962	-	4,095,447	1,118,864
Investments in the State of Oregon local government investment pool	2,225,501	758,885	4,063,038	7,047,424	10,757,936
Investments - US Agencies and Corp.	9,179,580	-	-	9,179,580	10,356,398
Total water system	12,060,566	4,198,847	4,063,038	20,322,451	22,233,198
	$ 63,206,249	$ 40,868,763	$ 83,294,792	$ 187,369,804	$ 185,333,210

Note 5 – Receivables

Significant receivables were as follows:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Current receivables				
Accounts receivable	$ 33,672,023	$ 3,453,234	$ 29,819,004	$ 2,219,064
Allowance for doubtful accounts	(374,171)	(46,335)	(327,752)	(34,514)
Net accounts receivable	33,297,852	3,406,899	29,491,252	2,184,550
Conservation loans to customers	1,022,058	31,788	1,387,698	20,362
Steam transition loans to customers	203,832	-	191,031	-
Economic development loans to customers	89,967	42,550	-	-
Interest receivable	312,582	5,453	402,752	21,347
Miscellaneous receivables	596,879	-	724,066	9,810
Note receivable (BPA)	49,000	-	199,046	-
Receivables, less allowances	$ 35,572,170	$ 3,486,690	$ 32,395,845	$ 2,236,069
Long-term receivables				
Conservation loans to customers	$ 1,562,331	$ 70,339	$ 2,104,953	$ 32,410
Steam transition loans to customers	1,246,530	-	1,454,958	-
Economic development loans to customers	347,469	150,786	-	-
Note receivable (BPA)	49,000	-	98,000	-
Interest receivable (WGA)	1,596,013	-	1,317,493	-
Long-term receivables, conservation and other	$ 4,801,343	$ 221,125	$ 4,975,404	$ 32,410

Note 6 – Payables

Current payables were as follows:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Accounts payable	$ 20,870,022	$ 821,405	$ 16,923,757	$ 690,393
Construction payables	789,034	672,274	22,054	242,873
Contributions in lieu of taxes	1,410,745	-	1,223,298	-
Customer deposits	1,223,194	-	1,344,382	-
Equipment purchases	35,950	7,891	44,648	118,506
Member deposits - Public Agency Network	331,071	-	304,072	-
Miscellaneous payables	351,638	4,922	466,158	78,437
Preliminary investigations payables	97,871	-	1,579,840	-
Total payables	$ 25,109,525	$ 1,506,492	$ 21,908,209	$ 1,130,209

Note 7 – Other assets and other liabilities

Other assets and other liabilities were as follows:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Other assets				
Non-utility property	$ 9,310,036	$ 153,888	$ 7,606,393	$ 153,093
Derivatives at fair value	2,186,352	-	2,625,350	-
Option premiums long-term	-	-	612,400	-
Joint-use equipment	53,430	22,515	65,760	27,711
Fair value of renewable energy certificates	793,927	-	296,899	-
Prepaid transmission expense - Harvest Wind	1,447,189	-	1,547,921	-
Unamortized organizational costs - Harvest Wind	-	-	38,277	-
Regulatory assets				
Conservation assets	1,432,466	-	1,492,373	-
Unamortized bond issue costs	2,340,590	814,573	2,658,402	888,665
Sick leave - upon retirement	951,847	208,942	1,000,584	219,640
Net pension obligation - supplemental retirement plan	418,571	91,882	418,571	91,882
Accreted interest - capital appreciation bonds	5,476,002	-	4,825,686	-
Other assets	$ 24,410,410	$ 1,291,800	$ 23,188,616	$ 1,380,991
Other liabilities				
Derivatives at fair value	$ 1,746,356	$ -	$ 2,431,088	$ -
Environmental clean up	726,800	-	680,000	-
Fair value of renewable energy certificates	793,927	-	296,899	-
System development charge	-	282,849	-	72,601
Other liabilities	$ 3,267,083	$ 282,849	$ 3,407,987	$ 72,601

Note 8 – Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources were as follows:

	2013		2012	
	Electric System	Water System	Electric System	Water System
Deferred outflows of resources				
Accumulated decrease in fair value of hedging derivatives	$ 1,746,356	$ -	$ 2,431,088	$ -
Accumulated decrease in fair value of investment derivatives	(211,100)	-	-	-
Unamortized losses on bond refunding	1,401,011	843,318	1,616,429	925,197
Deferred outflows of resources	$ 2,936,267	$ 843,318	$ 4,047,517	$ 925,197
Deferred inflows of resources				
Accumulated increase in fair value of hedging derivatives	$ 2,186,352	$ -	$ 2,625,350	$ -
Accumulated increase in fair value of investment derivatives	(192,245)	-	-	-
Regulatory deferred inflows				
Sick leave - upon retirement	951,847	208,942	1,000,584	219,640
Net pension obligation - supplemental retirement plan	418,571	91,882	418,571	91,882
Inventory adjustment	1,754,844	327,980	-	-
Deferred inflows of resources	$ 5,119,369	$ 628,804	$ 4,044,505	$ 311,522

Note 9 – 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. 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, 2013, the Board had a receivable in the amount of $1.6 million ($1.3 million at December 31, 2012) for interest on the cumulative preferred dividend on the remaining equity investment. Revenue from preferred dividends 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. Under bond agreements, distributions to the Board are limited to $400,000 per year. During 2013, distributions totaling $200,000 were received (and $400,000 were received in 2012). The balance of the investment as of December 31, 2013 was ($639,000), a negative balance ($1.8 million, positive, in 2012). During 2013, the Agency performed a major maintenance and then experienced an unplanned outage with significant damage to Agency owned equipment. As a result of the extended outage, the Agency recorded a net loss. An insurance claim was filed and was in process as of December 31, 2013.

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 10 – 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, 2013, the balance of the Board's investment in Harvest Wind was $27.6 million ($27.3 at December 31, 2012) including estimated income of $2.1 million (income of $660,000 in 2012) and distributions of $1.8 million ($1.7 million in 2012).

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 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 $790,000 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 11 – Long-term debt

Bonds and notes payable were as follows:

	2013	2012
Electric Utility System Revenue and Refunding Bonds		
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2012-2022	$ 20,990,000	$ 22,115,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556	4,067,556
2005 Series, 5-10-05 issue		
Serial Bonds, 3.75% - 5.0%, due 2012-2020	3,835,000	4,295,000
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 2012-2026	9,565,000	10,095,000
2008 Series A, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2012-2028	30,605,000	32,075,000
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 2012-2022	26,860,000	27,975,000
2011 Series A, 6-08-11 issue		
Serial Bonds 3.00% - 5.00%, due 2013-2032	50,260,000	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	8,440,000	9,000,000
2012 Series, 8-1-12 issue		
Serial Bonds 2.00% - 5.00%, due 2013-2032	52,025,000	52,590,000
Term Bonds, 5.00%, due 2033-2038	10,165,000	10,165,000
Term Bonds, 3.75%, due 2039-2042	8,475,000	8,475,000
	259,187,556	266,587,556
Add unamortized premium	12,932,359	14,324,851
Add accreted interest	5,476,002	4,825,686
Electric System bonds payable, long-term and current portion	277,595,917	285,738,093
Less current portion	(10,340,000)	(7,400,000)
Electric System bonds payable, long-term portion	267,255,917	278,338,093
Junior lien loan payable to Bank of America, Harvest Wind Project	29,995,768	31,182,350
Less current portion	(1,243,370)	(1,186,582)
Electric System bonds and note payable, net of current portion	296,008,315	308,333,861

	2013	2012
Water Utility System Revenue and Refunding Bonds		
2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%, due 2012-2022	$ 6,435,000	$ 7,005,000
2005 Series, 8-16-05 issue		
Serial Bonds, 3.50% - 5.00%, due 2012-2025	7,070,000	7,515,000
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 2012-2026	5,440,000	5,750,000
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 2012-2027	2,832,780	3,040,057
	52,012,780	53,545,057
Add unamortized premium	408,209	436,580
Less unamortized discount	(84,064)	(93,371)
Water System bonds and note payable, long-term and current portion	52,336,925	53,888,266
Less current portion	(1,987,277)	(1,532,277)
Water bonds and note payable, net of current portion	50,349,648	52,355,989
Less inter-system payable	(2,625,503)	(2,832,780)
Water System bonds payable, net of current portion	47,724,145	49,523,209
Total Systems long-term debt, net of current portion	$ 343,732,460	$ 357,857,070

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

	Fair Value 2013	Fair Value 2012
Electric System	$ 313,590,626	$ 347,637,738
Water System	50,674,617	56,068,338
	$ 364,265,243	$ 403,706,076

(Note 11 – Long-term debt, continued)

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
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	15,525,000	9,744,411	2,080,000	1,860,476
2019 - 2023	82,932,106	39,455,216	10,885,000	7,960,314
2024 - 2028	40,710,450	35,914,501	9,370,000	5,921,314
2029 - 2033	38,975,000	12,313,425	8,575,000	3,856,303
2034 - 2038	17,405,000	5,317,815	8,660,000	1,893,125
2039 - 2042	12,610,000	1,121,626	2,075,000	157,000
	$ 289,183,324	$ 151,118,320	$ 49,180,000	$ 29,843,429

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, 2013 and 2012, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

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, 2013 was as follows:

	Outstanding January 1, 2013	Issued During Year	Redeemed During Year	Outstanding December 31, 2013	Due Within One Year
Electric Revenue and Revenue Refunding Bonds - Current Interest, interest rates from 1.0% to 6.32%, maturing through 2033 (original issue $280,200,000)	$ 262,520,000	$ -	$ (7,400,000)	$ 255,120,000	$ 10,340,000
Electric Revenue Bonds - Capital Appreciation interest rates from 7.13% to 7.21%, maturing from 2033 through 2027 (original issue $4,067,556)	4,067,556	-	-	4,067,556	-
Electric Note Payable interest rate 4.73%, maturing in 2015 (original note $34,000,000)	31,182,350	-	(1,186,582)	29,995,768	1,243,370
Total Electric System	297,769,906	-	(8,586,582)	289,183,324	11,583,370
Water Revenue Refunding Bonds interest rates from 3.5% to 5.0% maturing through 2030 (original issue $12,540,000)	11,695,000	-	(445,000)	11,250,000	460,000
Water Revenue Bonds interest rates from 2.75% to 5.25% maturing through 2040 (original issue $42,895,000)	38,810,000	-	(880,000)	37,930,000	1,320,000
Total Water System	50,505,000	-	(1,325,000)	49,180,000	1,780,000
Total bonded debt	$ 348,274,906	$ -	$ (9,911,582)	$ 338,363,324	$ 13,363,370

(Note 11 – Long-term debt, continued)

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	Due Within One Year
Electric Revenue and Revenue Refunding Bonds - Current Interest, interest rates from 1.0% to 6.32%, maturing through 2033 (original issue $280,200,000)	$ 235,630,000	71,230,000	$ (44,340,000)	$ 262,520,000	$ 7,400,000
Electric Revenue Bonds - Capital Appreciation interest rates from 7.13% to 7.21%, maturing 2033 - 2027 (original issue $4,067,556)	4,067,556	-	-	4,067,556	-
Electric Note Payable interest rate 4.73%, maturing in 2015 (original note $34,000,000)	32,314,737	-	(1,132,387)	31,182,350	1,186,582
Total Electric System	272,012,293	71,230,000.00	(45,472,387)	297,769,906	8,586,582
Water Revenue Refunding Bonds interest rates from 3.5% to 5.0% maturing through 2030 (original issue $12,540,000)	12,125,000	-	(430,000)	11,695,000	445,000
Water Revenue Bonds interest rates from 2.75% to 5.25% maturing through 2040 (original issue $42,895,000)	39,650,000	-	(840,000)	38,810,000	880,000
Total Water System	51,775,000	-	(1,270,000)	50,505,000	1,325,000
Total bonded debt	$ 323,787,293	$ 71,230,000	$ (46,742,387)	$ 348,274,906	$ 9,911,582

Note 12 – Intersystem receivables and payables

	2013		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
Current			
Interest	$ 220,747	$ (220,747)	$ -
Note - prepaid retirement obligation	207,276	(207,276)	-
Lease	420,744	(420,744)	-
	848,767	(848,767)	-
Non-current			
Note - prepaid retirement obligation	2,625,503	(2,625,503)	-
Lease	15,959,226	(15,959,226)	-
	18,584,729	(18,584,729)	-
Totals	$ 19,433,496	$ (19,433,496)	$ -

	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)	$ -

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.

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.

(Note 12 – Intersystem receivables and payables, continued)

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, 2013 (and as of December 31, 2012), minimum lease payments were $99,000 per month through year 2035, and $13,000 per month for years 2036 through 2040 on a capitalized value of $17.6 million.

Annual totals for lease payments (including interest) as of December 31, 2013 were as follows:

2014	$ 1,187,406
2015	1,187,406
2016	1,187,406
2017	1,187,406
2018	1,187,406
2019 - 2023	5,937,030
2024 - 2028	5,937,030
2029 - 2033	5,937,030
2034 - 2038	2,658,767
2039 - 2040	304,330
	$ 26,711,217

Note 13 – Power supply resources

Bonneville Power Administration

- **Bonneville Power Administration Contracts**
  A new contract was signed on December 4, 2008 providing power to EWEB from October 1, 2011 through September 30, 2028. The Board reselected a combination of both Block and Slice 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 bringing 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 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.

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 2.40% 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 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.

(Note 13 – Power supply resources, continued)

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 addressing 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 2014.

- **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 diverting 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.

- **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**
  The Board 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, the Board entered into 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.

(Note 13 – Power supply resources, continued)

- **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. As of the close of 2013, EWEB had acquired contracts with total capacity slightly over 2 MW and 0.24 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 processing the wastewater created in the Eugene-Springfield metropolitan area. The byproduct of the decomposition taking place during treatment is a biogas which is collected and piped into a reciprocating engine connected to a 0.80 MW generator, producing about 0.57 aMW per year. The renewable power purchase agreement with MWMC is for 10 years ending in 2019 and will be terminated January 1, 2014.

Note 14 – 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 providing 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 including both pension plans, which may be obtained from OPERS.

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. 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 2013 and 2012.

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 $11.9 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
12/31/2011	$ 10,985,000	100%	$ -
12/31/2012	$ 12,535,203	100%	$ -
12/31/2013	$ 11,851,880	100%	$ -

The required contribution was determined as part of the December 31, 2012, actuarial valuation using the entry age normal method. The actuarial assumption included (a) 7.75% investment rate of return (b) projected salary increases of 3.75% per year, and (c) 1.5% 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.

(Note 14 – Retirement benefits, continued)

Funding Status and Funding Progress
As of December 31, 2012, the most recent actuarial valuation date, the plan was 77% funded. The actuarial accrued liability for benefits was $296 million, and the actuarial value of assets was $229 million, resulting in an unfunded actuarial accrued liability (UAAL) of $67 million. The covered payroll (annual payroll of active employees covered by the plan) was $42.8 million, and the ratio of the UAAL to the covered payroll was 157%. The 2012 actuarial valuation is for information only and employer rates are set based on the 2011 actuarial valuation as employer rates are updated every other year.

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
12/31/2010	$ 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%
12/31/2012	$ 229,282,178	$ 296,302,627	$ 67,020,449	77%	$ 42,796,406	157%

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.

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, beginning of the year		707,197
Net pension obligation, end of the year	$	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 plan was 10% funded. The actuarial accrued liability for benefits was $1.9 million, 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.

(Note 14 – Retirement benefits, continued)

(Annual Pension Cost, continued)

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, 460 retirees or surviving spouses of retired employees and 522 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 obtainable 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. On May 31, 2013 the Board deposited $7 million from a reserve for pension and medical costs to pay down the unfunded liability of the plan. The deposit represented 36% of the trust's assets on that date. 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. Actual contributions were $1.8 million during 2012 and $8.5 million during 2013.

Other actuarial assumptions include a rate of return on investments of present and future assets of 7% and 7.5% annual rate increase in the per capita cost of covered health care benefits for 2014. 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 2013 and the preceding years were as follows:

Fiscal Year Ended	Annaul OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
12/31/2011	$ 2,414,202	122%	$ (535,798)
12/31/2012	$ 2,289,089	80%	$ (84,662)
12/31/2013	$ 1,535,043	550%	$ (6,997,531)

Funding Status and Funding Progress

As of June 1, 2013, the most recent actuarial valuation date, the plan was 62% funded. The actuarial accrued liability for benefits was $31 million, and the actuarial value of assets was $19 million, resulting in an unfunded actuarial accrued liability (UAAL) of $12 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
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%
6/1/2013	$ 19,257,425	$ 31,281,002	$ 12,023,577	62%	$ 42,796,406	28%

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 15 – 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 16 – 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.

A summary of the balance sheets for EWEB's share of the Trojan Project as of September 30, 2013 and September 30, 2012 is as follows.

	Unaudited September 30, 2013	Unaudited September 30, 2012
Assets		
Current assets	$ 301,422	$ 288,468
Long-term receivable, BPA, net	40,860,073	41,875,103
Total assets	$ 41,161,495	$ 42,163,571
Liabilities		
Current liabilities	$ 1,619,628	$ 1,621,528
Accumulated provision for decommissioning costs	39,541,868	40,542,043
Total liabilitites	$ 41,161,496	$ 42,163,571

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

Note 17 – Commitments and contingencies

Electric Projects

- **Construction**
  Contractual commitments for rollgate repair at the Leaburg hydro project and purchases of a transformer and bucket trucks at December 31, 2013 were $1,336,000 ($187,000 for distribution assets at December 31, 2012).

- **Carmen-Smith Relicensing**
  Commitments for preconstruction costs to relicense the Carmen-Smith Project were $2.6 million for engineering and environmental services ($4.4 million at December 31, 2012).

  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.

(Note 17 – Commitments and contingencies, continued)

Water Projects
Construction related contracts for the Willamette River Crossing, Hayden Bridge filtration plant intake improvements and reservoir improvements were $1.5 million ($6.1 million at December 31, 2012).

Roosevelt Operations Center
Construction contracts for installation of a fuel tank at the Board's shared facility for Electric and Water operations were $300,000 at December 31, 2013.

Self-Insurance
The Board is exposed to various risks of loss because of the Board's self-insurance retention, up to the first $2,000,000 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, *Tort actions against public bodies*, which reduce the liability to any single claimant to approximately $100,000 for property damage and approximately $600,000 for personal injury. 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, 2013, a total claims liability of approximately $127,000 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
2011	General Liability	$ 368,065	$ 109,252	$ (404,017)	$ 73,300
2012	General Liability	$ 73,300	$ 439,400	$ (189,263)	$ 323,437
2013	General Liability	$ 323,437	$ 94,046	$ (290,749)	$ 126,734

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, 2013.

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2013

	Revenue, including Capital Appreciation 2001A Series 11-15-01		Revenue 2005 Series 5-10-05		Revenue 2006 Series 8-24-06	
	Principal	Interest	Principal	Interest	Principal	Interest
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	-	-	-	-	-	-
2043	-	-	-	-	-	-
	25,057,556	25,274,888	7,365,000	2,291,613	9,565,000	3,056,256
Less current portion	1,310,000	-	480,000	-	550,000	-
	$ 23,747,556	$ 25,274,888	$ 6,885,000	$ 2,291,613	$ 9,015,000	$ 3,056,256

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2013

	Revenue 2008 A Series 7-17-08		Revenue Refunding 2008B Series 7-17-08		Revenue and Revenue Refunding 2011A Series 6-08-11	
	Principal	Interest	Principal	Interest	Principal	Interest
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	-	-	-	-	-	-
2043	-	-	-	-	-	-
	46,600,000	27,428,112	26,860,000	7,783,250	64,635,000	44,212,308
Less current portion	1,540,000	-	1,690,000	-	1,920,000	-
	$ 45,060,000	$ 27,428,112	$ 25,170,000	$ 7,783,250	$ 62,715,000	$ 44,212,308

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2013

	Revenue Refunding 2011B Series 6-08-11		Revenue and Revenue Refunding 2012 Series 8-01-12		Total Electric System Payments		
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
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
2043	-	-	-	-	-	-	-
	8,440,000	1,870,497	70,665,000	37,117,133	259,187,556	149,034,057	408,221,613
Less current portion	745,000	-	2,105,000	-	10,340,000	-	10,340,000
	$ 7,695,000	$ 1,870,497	$ 68,560,000	$ 37,117,133	$ 248,847,556	$ 149,034,057	$ 397,881,613

WATER SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2013

	Revenue 2002 Series 8-01-02		Revenue Refunding 2005 Series 8-16-05		Revenue 2008 Series 7-17-08	
	Principal	Interest	Principal	Interest	Principal	Interest
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	-	-	-	-	-	-
2041	-	-	-	-	-	-
	6,435,000	1,541,425	11,250,000	4,850,479	14,195,000	10,657,073
Less current portion	595,000	-	460,000	-	320,000	-
	$ 5,840,000	$ 1,541,425	$ 10,790,000	$ 4,850,479	$ 13,875,000	$ 10,657,073

WATER SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2013

	Revenue 2011 Series 6-29-11		Total Water System Payments		
	Principal	Interest	Principal	Interest	Totals
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
2041	-	-	-	-	-
	17,300,000	12,794,452	49,180,000	29,843,429	79,023,429
Less current portion	405,000	-	1,780,000	-	1,780,000
	$ 16,895,000	$ 12,794,452	$ 47,400,000	$ 29,843,429	$ 77,243,429

ELECTRIC SYSTEM (Unaudited)
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2013

	Bond Funds					
	Interest Accounts	Principal Accounts	Debt Service Reserve	Construction Funds	Customer & Escrow Deposit Reserve	Total All Funds
Ending balance - December 31, 2012	$ 4,646,789	$ 3,019,267	$ 9,330,357	$ 34,681,127	$ 6,649,578	$ 58,327,118
Deposits from general fund	12,209,604	8,688,667	-	1,832,135	1,001,419	23,731,825
Interest earnings	669	731	3,725	122,404	19,742	147,271
Other transfers	38	-	-	-	-	38
Receipts	12,210,311	8,689,398	3,725	1,954,539	1,021,161	23,879,134
Principal payments	-	7,400,000	-	-	-	7,400,000
Interest payments	11,833,868	-	-	-	-	11,833,868
Transfers to general fund	-	-	-	8,919,577	2,907,086	11,826,663
Other transfers	-	38	-	-	-	38
Disbursements	11,833,868	7,400,038	-	8,919,577	2,907,086	31,060,569
U.S. agency securities, at market	3,017,689	2,584,682	9,334,081	20,697,481	2,132,238	37,766,171
Cash in bank	2,005,543	1,723,945	1	-	1,169,163	4,898,652
State of Oregon Local Government Investment Pool	-	-	-	7,018,608	1,462,252	8,480,860
Ending balance - December 31, 2013	$ 5,023,232	$ 4,308,627	$ 9,334,082	$ 27,716,089	$ 4,763,653	$ 51,145,683

WATER SYSTEM (Unaudited)
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2013

	Debt Service Accounts	SDC Reserves	Construction Funds	Other Restricted	Total All Funds
Ending balance - December 31, 2012	$ 3,840,515	$ 977,955	$ 12,962,779	$ 295	$ 17,781,544
Deposits from general fund	3,692,565	1,383,466	154,780	177,277	5,408,088
Interest earnings	1,196	4,742	63,071	387	69,396
Receipts	3,693,761	1,388,208	217,851	177,664	5,477,484
Principal payments	1,325,000	-	-	-	1,325,000
Interest payments	2,203,471	-	-	-	2,203,471
Transfers to general fund	-	1,302,561	5,619,719	125,506	7,047,786
Other transfers	-	622,205	-	-	622,205
Disbursements	3,528,471	1,924,766	5,619,719	125,506	11,198,462
U.S. agency securities, at market	3,350,320	-	5,829,260	-	9,179,580
Cash in bank	655,485	-	-	-	655,485
Investment Pool	-	441,397	1,731,651	52,453	2,225,501
Ending balance - December 31, 2013	$ 4,005,805	$ 441,397	$ 7,560,911	$ 52,453	$ 12,060,566

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.

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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, 2013 and have issued our report thereon dated March 7, 2014. 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.

Julie DeSimone

For Moss Adams LLP
Portland, Oregon
March 7, 2014

Rely on us.

EWEB

Eugene Water & Electric Board
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Eugene OR 97401

www.eweb.org