EWEB

Eugene Water & Electric Board

Independent Auditor's Reports and Financial Statements

December 31, 2014 and 2013

TABLE OF CONTENTS

Eugene Water & Electric Board

Board of Commissioners

Mr. John Brown, Wards 4 & 5, President

Mr. Steve Mital, Wards 1 & 8, Vice President

Mr. James Manning, Wards 6 & 7, Member

Mr. Dick Helgeson, Wards 2 & 3, Member

Mr. John Simpson, “At Large,” 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, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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)

Opinions

In our opinion, the individual and combined financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2014 and 2013, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements. The schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

REPORT OF INDEPENDENT AUDITORS (continued)

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated March 27, 2015 on our consideration of the Board's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Julie Desimone

For Moss Adams LLP
Portland, Oregon
March 27, 2015

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 2014, 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 90,000 electric and 52,000 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 revenues and expenses, 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 and the Water Utility ratings were affirmed. Also during 2013, the Board revised financial policies to adjust the Electric Utility debt service ratio target from AA to A.

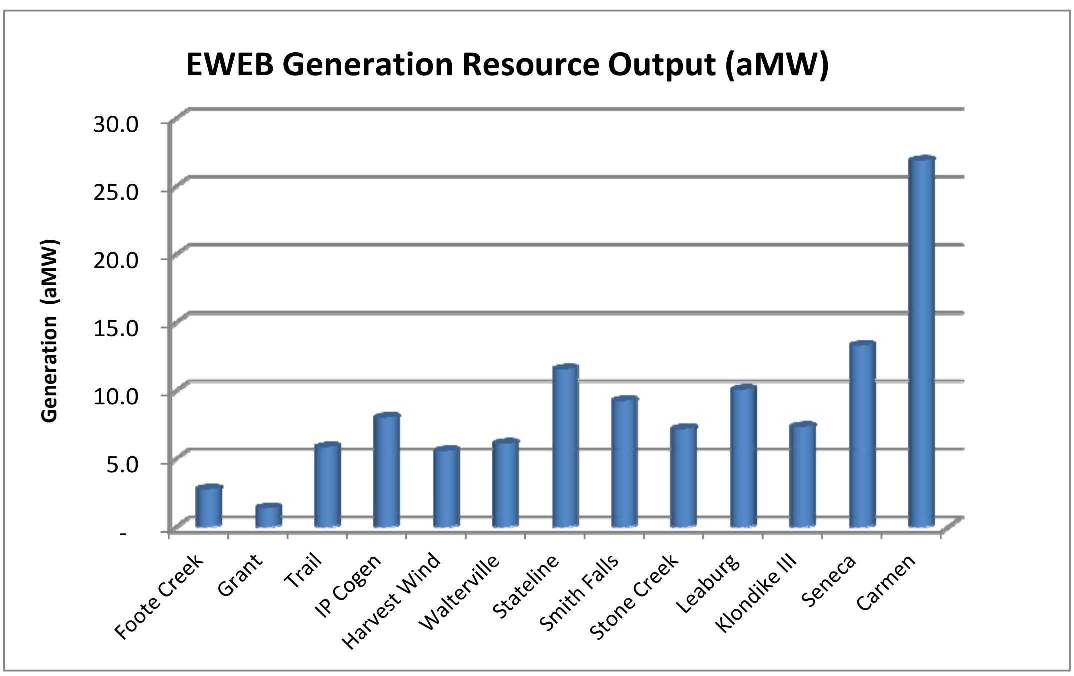
Electric System

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 75% of revenues in 2014 with wholesale and other sales accounting for 25% of revenues. Heating load and general economic conditions are the primary influences on retail sales.

EWEB sets budgets and power supply forecasts conservatively. The 2014 budget assumed available water for generation would be 90% of the historical average. Water available for generation in 2014 was 100% of normal (95% and 104% in 2013 and 2012, 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 for sales of excess generation in the wholesale markets. Substantial wholesale sales activity can complement sales to retail customers and provide 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 pressure. 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. Wholesale power prices continued to be depressed and at historical lows. For 2014, the Board budgeted to deposit $6.4 million to operating reserves to achieve the Board target for debt service coverage. In 2013, the Board drew upon the pension and medical reserves to increase the funding of the Post Employment Medical Trust and decrease the unfunded actuarial liability. In 2012, the Board elected to budget a draw on operating reserves to cover budgeted operating expenses.



All Generation Resources (in aMW): EWEB 115, BPA 277, Total 392
2014 Load: 275 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; 1944 as measured by EWEB) 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, 2014 and financial results of 2014 in comparison to 2013 and 2012. 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

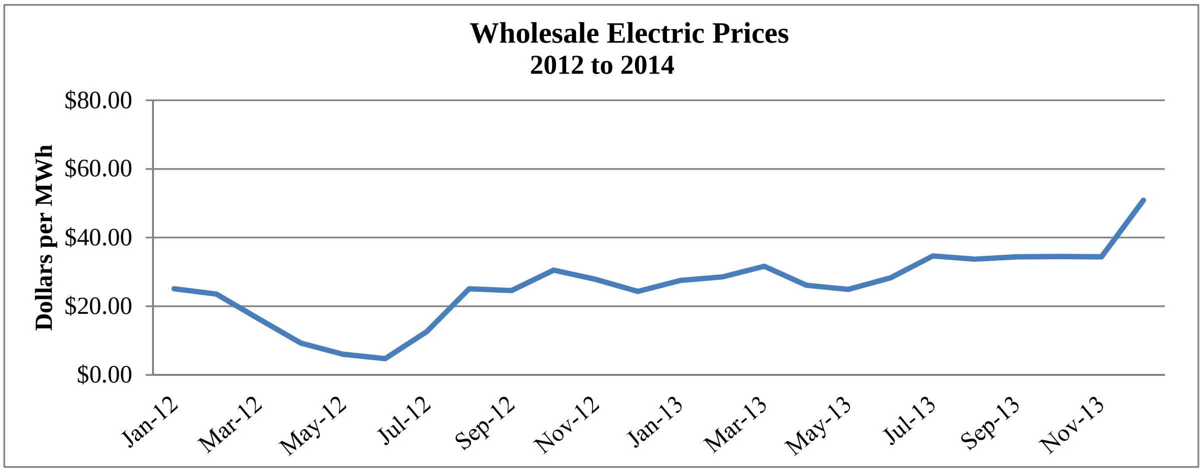
The Electric System’s overall financial results continued to improve in 2014 compared to 2013 and 2012. The Board continues to feel the impact of the slow recovery from the recession. Overall retail load (local consumption) decreased 6% from 2013 and 1.9% from 2012 load. Within retail rate classes, residential load decreased 6.3% and commercial and industrial consumption decreased 0.5%. In December of 2013, the region experienced an extreme cold weather event that lead to an increase in load. The extreme cold weather was followed by an extended snow and ice storm in February of 2014 that resulted in interruption of power for approximately 10% of customers.

Despite the decrease in consumption, residential, commercial and industrial sales increased by $8.5 million from 2013 and $18.9 million from 2012. The largest increase in revenue was in the commercial and industrial customer classes, which increased by 8.2%. Rate increases of 4.5% in February 2014, as well as 4.0% in February and 1.75% in November of 2013, 5.5% in May of 2012 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 accounted for $1.1 million of operating revenue in 2012.

Overall, operating revenue was up $19.1 million from 2013, and $24.8 million from 2012. The increase in revenue for 2014 is attributable to the changes in retail rates and in the prices and volume for wholesale market sales. Wholesale market and other sales increased $10.6 million from 2013, and $12.9 million from 2012. Wholesale power prices continue to be much lower than historical averages, but showed slight improvement in 2014 and 2013. Annual average prices were $34, $32, and $19 per MWh in 2014, 2013, and 2012, respectively. Wholesale sales volume increased during 2014 by 14.7%, and revenue increased by 1.5% compared to 2013. Sales volume for 2014 decreased 14.5%, and revenue decreased by 25.9% compared to 2012.

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 slow growth in demand and availability of low cost natural gas as an alternative for electrical generation.



	2012	2013	2014
Annual Price Average	*$ 19.14*	*$ 32.43*	*$ 33.82*

In 2012, operating revenue included the recognition of previously deferred revenue in the amount of $6.9 million, when all previously deferred revenue had been recognized as income. The deferral of revenue was 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 $15.3 million more than in 2013 and $14.9 million more than in 2012. Purchased power includes the cost of power from BPA and other contracted resources, as well as power purchased on the wholesale markets. Purchased power expense increased $6.0 million compared to 2013 and $13.1 million compared to 2012. 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 programs to protect the Electric utility from exposure to falling prices. Wheeling expense has increased compared to both 2013 and 2012, but at a lower rate than purchased power.

The Board incurred approximately $1.3 million in additional transmission and distribution expense for storm restoration due to the February of 2014 snow and ice storm when the Board experienced an unprecedented number of customer outages. At its peak, outages hit as much as 10% of the customer base. The impact of the storm accounts for the majority of the increase in transmission and distribution expense. The Board was able to apply for FEMA grant funds and ultimately received a grant equal to

75% of the cost of the storm restoration. The balance of the change in transmission and distribution expense was due to increases in the cost of operations and engineering costs.

Conservation expense remained stable in 2014 and 2013, compared to the $3.1 million decrease from 2012. Administrative and general expenses increased $3.3 million in 2014 after having decreased $1.4 million compared to 2012. During 2012 cost cutting and budget revisions were implemented 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.

Selected Financial Data

(in millions of dollars)

	2014	2013	2012
Operating revenues	$ 257	$ 238	$ 232
Operating expenses	(223)	(208)	(208)
Net operating income	34	30	24
Non-operating revenues	10	8	7
Non-operating expenses	(17)	(16)	(16)
Income before contributed capital	27	22	15
Contributed capital	3	2	2
Change in net position	$ 30	$ 24	$ 17
Deferred outflows of resources	$ 2	$ 3	$ 4
Total assets and deferred outflows	$ 733	$ 717	$ 698
Deferred inflows of resources	$ 7	$ 5	$ 4
Total liabilities	330	345	351
Net position			
Net investment in capital assets	164	149	$ 154
Restricted	17	17	17
Unrestricted	215	201	172
Total net position	396	367	343
Total liabilities and net position	$ 733	$ 717	$ 698

Total assets and deferred outflows at December 31, 2014 were $15.8 million more than in 2013 and $35.0 million more than in 2012. The change from 2013 and 2012 was primarily due to increases in the balances of cash and investments. Total cash and investments increased $20.2 million in 2014, with unrestricted cash and investments nearly unchanged from 2013, an increase of $23.9 million in designated cash and investments, and a decrease of $3.5 million in restricted cash and investments. The increase in designated cash and investments reflects transfers made from other sources, primarily to fund the $27.0 million reserve to retire the debt for the Harvest Wind Project, and a budgeted transfer from general cash to operating reserves. Decreases in restricted cash and investment balances are due to the use of restricted funds for capital projects and payment of ongoing debt service. Offsetting the increase in cash and investments were decreases in receivable and pre-paid balances. The most significant change in receivables was a decrease of $2.0 million in customer accounts receivable when compared to 2013. However, 2013 receivables balances included very high consumption due to the extremely cold weather.

Preliminary investigations increased by a relatively small $667 thousand as expenses for the relicensing of the Carmen-Smith facility continued at a reduced rate while awaiting approval of the license. By comparison, the balance had increased by $2.7 million in 2013 and $8.8 million in 2012.

Electric Utility plant in service and construction work in process for 2014 increased by $21.4 million compared to 2013 and $43.3 million compared to 2012. Plant additions in 2014 included the work and asset management system that had been classified as work in process at the end of 2013. Modifications and improvements to substations and distribution reliability improvements were also added to plant in service in 2014. Significant completed work added to plant in service in 2013 included work on a backup control center, underground conductor work and improvements to the Leaburg Fish ladder. Total plant additions in 2012 consisted primarily of improvements to the distribution system and construction work-in-progress for the Metro Ethernet and distribution system.

Capital Assets
(*in millions of dollars*)

	2014	2013	2012
Production and land	$ 207	$ 206	$ 206
Transmission and distribution	368	352	326
General plant	153	149	153
Total utility plant in service	$ 728	$ 707	$ 685

Property held for future use decreased by $2.6 million from 2013 and 2012. The change is attributable to the purchase of a building and land intended to be used as a future site for headquarters operations that has been now been transferred to non-utility property. 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 is included in the balance of other non-current assets on the statement of net position.

Total liabilities and deferred inflows decreased by $13.7 million compared to 2013 and $18.7 million compared to 2012. Total liabilities, including the current and long-term portions of debt, decreased by $16.6 million in 2014 and $21.2 million since 2012. No new bonds issues were added to long-term debt and ongoing debt service payments reduced the total debt by $13.0 million. The $29.0 million remaining balance of the note payable that was taken out to finance EWEB's share of the Harvest Wind Project was reclassified to current liabilities since the note is due to be paid in full in early 2015. Long-term debt had 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.

Overall the change in net position for the Electric Utility was $29.5 million in 2014, compared to $24.1 million in 2013 and $17.2 million in 2012.

Liabilities

(in millions of dollars)

	2014	2013	2012
Current liabilities	$ 72	$ 45	$ 39
Noncurrent liabilities	258	301	312
Total liabilities	$ 330	$ 346	$ 351

Water System

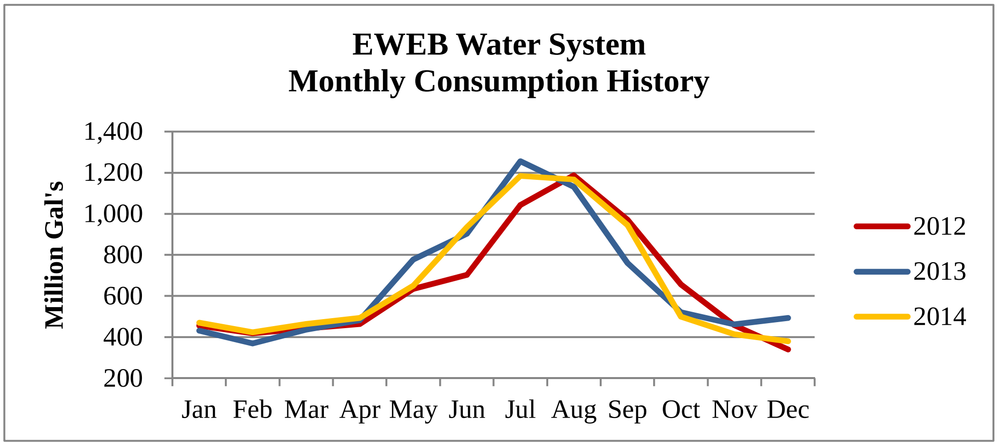
The Water System provides water to all areas within the city, and two water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, one of the largest treatment plants in Oregon. Water is pumped from the Hayden Bridge Filtration Plant into the distribution 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 water reliability initiative 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 funded through a multi-year program of retail rate increases directed toward increasing annual capital investment in the system, including an alternative water source to the single source, the McKenzie River. 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.

During 2013, the Water System sold 8.0 billion gallons of water, 867 million gallons of which was to the water districts. This was relatively small increase of 5.9 million gallons more than the volume sold in 2013 and 281 million gallons more than in 2012. During 2014, water rates increased by 3.0% overall, with an additional 2.7% increase for residential and commercial customers that was intended to establish reserves for the Alternative Water Source Project. Due to several years of lower than average consumption, Water Utility reserves were extremely low. To increase financial stability, the Board approved a 20% rate increase for residential and commercial customers in 2013. Rates increased by 4% in 2012.

Total sales revenue for the water utility was up by $2.5 million from 2013 and $8.8 million from 2012. Residential sales revenue increase by $1.0 million, in 2013 and $4.8 million compared to 2012. Commercial and industrial customer sales increased $1.2 million in 2014 and were $3.7 million higher than in 2012. Sales to water districts increased $319 thousand from 2013 and $708 thousand from 2012. Increases in sales for 2014 and 2013 were driven primarily by rate increases since consumption remained relatively steady.



Yearly Consumption (MGal's)

2012: 7,775
2013: 8,022
2014: 8,029

Operating expenses decreased by $242 thousand in 2014, but had increased by $926 thousand from 2012. Transmission and distribution, and general and administrative expenses have been consistently trending downward since 2012. Source of supply and depreciation expenses were the only expense categories showing increases over the last two years.

Contributed capital consisting of system development charges and contributions-in-aid of construction and contributed assets was up by $59 thousand from 2013, and $1.4 million from 2011. Contributed capital and system development activity has been increasing consistently as customer driven work recovers from the recession.

Selected Financial Data

(in millions of dollars)

	2014	2013	2012
Operating revenues	$ 35.1	$ 32.6	$ 26.2
Operating expenses	(21.6)	(21.8)	(20.7)
Net operating income	13.5	10.8	5.5
Non-operating revenues	0.8	1.0	0.5
Non-operating expenses	(3.7)	(3.8)	(3.8)
Income before contributed capital	10.6	8.0	2.2
Contributed capital	2.9	2.9	1.5
Change in net position	$ 13.5	$ 10.9	$ 3.7
Deferred outflows	$ 0.8	$ 0.8	$ 0.9
Total assets and deferred outflows	$ 179.3	$ 167.7	$ 157.8
Deferred inflows	$ 0.3	$ 0.3	$ 0.3
Total liabilities	70.7	72.6	73.6
Net position			
Net investment in capital assets	83.6	78.0	72.9
Restricted	4.9	3.6	3.9
Unrestricted	19.8	13.2	7.1
Total net position	108.3	94.8	83.9
Total liabilities and net position	$ 179.3	$ 167.7	$ 157.8

Total assets and deferred outflows in the water utility increased by $11.6 million from 2013 and $21.6 million from 2012. Unrestricted cash was up by $4.6 million from 2013 and $7.1 million from 2012, with the primary factor being revenue generated by rate increases. Unrestricted cash ended the year at $8.8 million compared to $4.2 million in 2013 and $1.6 million in 2011.

During 2014, the water utility established designated reserves for pension and medical expenses and for the funding of the Alternative Water Source project. Designated cash balances, mostly for the capital improvement and operating reserves, increased by $2.8 million from 2013 and $3.4 million from 2012. Restricted cash and investments, consisting of debt service funds and proceeds from bonds restricted to use for capital improvements decreased $3.9 million from 2013 and $9.6 million from 2012, with the changes due to payment of debt service and use of bond funds for ongoing capital work.

Overall, plant in service and construction work in progress increased by $14.7 million from 2013 and $28.7 from 2012. During 2014, additions to plant included improvement of the water intake system, transmission and distribution main improvements and the work and asset management system. 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. Construction work in process at the end of 2014 included source of supply and distribution improvements as well as relocation work required in advance of the Lane Transit District West Eugene EmX bus rapid transit project. For 2013, construction work in process consisted of improvements to the water intake screen and other improvements at the water filtration plan, water main improvements and the cost of the ongoing work and asset management system. Construction work in progress for 2012 included a reservoir replacement and improvements at the filtration plant.

Capital Assets

(*in millions of dollars*)

	2014	2013	2012
Production and land	$ 62	$ 61	$ 54
Transmission and distribution	139	129	126
General plant	34	32	30
Total utility plant in service	$ 235	$ 222	$ 210

Water System Liabilities and deferred inflows of resources decreased by $13.7 million in 2014, and by $18.6 million compared to 2012, with the changes attributable to the ongoing payment of debt service and a decrease in accounts payable. No debt has been issued since 2011, when the Water System issued $17.3 million in bonds to finance capital projects that are part of the capital improvement plan.

The change in net position was $13.5 million, and $10.9 million and $3.8 million for the years 2014, 2013 and 2012, respectively. The changes in net position included the effects of rate restructuring and increases over the last several years.

Liabilities

(in millions of dollars)

	2014	2013	2012
Current liabilities	$ 7	$ 6	$ 5
Noncurrent liabilities	64	67	68
Total liabilities	$ 71	$ 73	$ 73

Outlook

The local economy continues to recover from the recession that started in 2008. Even though the region has shown a decrease in unemployment rates and sustained economic growth, many ratepayers are still struggling and have clearly sent the message they wish to minimize or eliminate future rate increases. The Board continues to evaluate and pursue financial initiatives ranging from sale of generating assets, paying down debt, and reprioritizing capital improvements that will improve the financial health of the Board and minimize cost to ratepayers. Through financial initiatives and rate actions over the last several years, both the Electric and Water Utilities have worked to achieve an increased level of financial stability

The 2015 budget and rates were approved with no rate increase for the Electric Utility. After several years of significant budget cuts, the most recent budget does not include significant reductions. The long-term plan for Electric Utility rates is to be, on average, in the middle range for comparable utilities in the region. Rate setting methodologies will also be redesigned to be less reliant on volumetric revenues, and more stable and predictable for customers. The budget and rates for the Water Utility in 2015 include a rate increase of 5%. Despite significant recent rate increases, the Water Utility expects average customer bills to remain below comparable regional rates.

The Board plans to continue work on several large projects. In the upcoming years, the Board will move forward with work to redevelop the downtown headquarters property. During 2014, the Board selected the University of Oregon Foundation as the developer for the site. Both the Water and Electric Utilities will perform work required to allow for the expansion of the West Eugene EmX bus rapid transit project. The Advanced Meter Infrastructure (AMI) project will begin work toward the installation of meters for customers that elect to participate.

A license approval from the Federal Energy Regulatory Commission for the Board's Carmen-Smith Hydroelectric Project has been anticipated for several years. Work on the relicensing project has been scaled back and will begin again after license approval, with an anticipated bond issue providing the funds for construction as required.

STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	Electric System 2014	Electric System 2013	Water System 2014	Water System 2013	Total System 2014	Total System 2013
ASSETS						
Capital assets						
Utility plant in service	$ 728,250,069	$ 706,852,202	$ 237,294,361	$ 221,915,523	$ 965,544,430	$ 928,767,725
Less accumulated depreciation	371,953,881	352,189,557	100,581,170	94,453,719	472,535,051	446,643,276
Net utility plant in service	356,296,188	354,662,645	136,713,191	127,461,804	493,009,379	482,124,449
Property held for future use	827,449	3,436,406	968,578	968,578	1,796,027	4,404,984
Construction work in progress	10,790,207	11,523,260	7,015,689	7,737,813	17,805,896	19,261,073
Net utility plant	367,913,844	369,622,311	144,697,458	136,168,195	512,611,302	505,790,506
Current assets						
Cash and cash equivalents	1,700,961	8,660,695	8,750,418	4,198,847	10,451,379	12,859,542
Short-term investments	8,152,378	17,792,962	-	-	8,152,378	17,792,962
Restricted cash and investments	47,639,426	41,498,512	8,192,430	10,059,826	55,831,856	51,558,338
Designated cash and investments	77,277,389	54,514,769	5,907,009	4,063,038	83,184,398	58,577,807
Receivables, less allowances	32,838,274	35,572,170	3,296,266	3,486,690	36,134,540	39,058,860
Due from Water System	867,504	848,767	-	-	-	-
Materials and supplies	4,547,729	4,910,025	918,358	1,064,553	5,466,087	5,974,578
Prepaids	8,214,554	8,628,194	1,633,137	1,708,311	9,847,691	10,336,505
Option premiums short-term	754,720	1,120,600	-	-	754,720	1,120,600
Total current assets	181,992,935	173,546,694	28,697,618	24,581,265	209,823,049	197,279,192
Non-current assets						
Investments - restricted	-	9,647,171	-	2,000,740	-	11,647,911
Investments - designated	25,835,323	24,716,985	1,592,830	-	27,428,153	24,716,985
Investments - unrestricted	26,614,427	10,216,259	-	-	26,614,427	10,216,259
Prepaid retirement obligation	11,016,379	11,960,640	2,418,238	2,625,515	13,434,617	14,586,155
Receivables, conservation and other	4,857,478	4,801,343	185,633	221,125	5,043,111	5,022,468
Due from Water System	17,936,308	18,584,729	-	-	-	-
Investment in WGA	432,010	(638,549)	-	-	432,010	(638,549)
Investment in Harvest Wind	26,278,520	27,571,629	-	-	26,278,520	27,571,629
Preliminary investigations	40,412,334	39,745,670	-	-	40,412,334	39,745,670
Other assets	27,922,348	24,410,410	979,593	1,291,800	28,901,941	25,702,210
Total non-current assets	181,305,127	171,016,287	5,176,294	6,139,180	168,545,113	158,570,738
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources	1,731,136	2,936,267	764,555	843,318	2,495,691	3,779,585
Total assets and deferred outflows of resources	$ 732,943,042	$ 717,121,559	$ 179,335,925	$ 167,731,958	$ 893,475,155	$ 865,420,021

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

See accompanying notes

STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	Electric System		Water System		Total System	
	2014	2013	2014	2013	2014	2013
LIABILITIES						
Current liabilities						
Payables	$ 20,965,415	$ 25,109,525	$ 1,829,473	$ 1,506,492	$ 22,794,888	$ 26,616,017
Accrued payroll and benefits	4,535,917	3,554,112	1,095,928	716,923	5,631,845	4,271,035
Interest payable	226,665	236,466	-	-	226,665	236,466
Note payable	28,752,398	1,243,370	-	-	28,752,398	1,243,370
Due to Electric System	-	-	867,504	848,767	-	-
Payable from restricted assets						
Accrued interest on long-term debt	4,829,232	5,021,302	870,069	896,548	5,699,301	5,917,850
Long-term debt due within one year	12,700,000	10,340,000	1,840,000	1,780,000	14,540,000	12,120,000
Total current liabilities	72,009,627	45,504,775	6,502,974	5,748,730	77,645,097	50,404,738
Non-current liabilities						
Long-term debt	247,703,815	290,532,313	45,864,998	47,724,145	293,568,813	338,256,458
Due to Electric System	-	-	17,936,308	18,584,729	-	-
Other liabilities	9,874,664	10,113,503	422,248	583,673	10,296,912	10,697,176
Total liabilities	329,588,106	346,150,591	70,726,528	72,641,277	381,510,822	399,358,372
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	6,603,300	3,748,951	327,980	327,980	6,931,280	4,076,931
NET POSITION						
Net investment in capital assets	164,313,120	149,739,166	83,589,681	78,008,145	247,902,801	227,747,311
Restricted	17,843,802	16,948,633	4,850,766	3,603,107	22,694,568	20,551,740
Unrestricted	214,594,714	200,534,218	19,840,970	13,151,449	234,435,684	213,685,667
Total net position	396,751,636	367,222,017	108,281,417	94,762,701	505,033,053	461,984,718
Total liabilities, deferred inflows of resources and net position	$ 732,943,042	$ 717,121,559	$ 179,335,925	$ 167,731,958	$ 893,475,155	$ 865,420,021

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, 2014 and 2013

	Electric System		Water System		Total System	
	2014	2013	2014	2013	2014	2013
Residential	$ 94,553,818	$ 93,465,978	$ 18,709,892	$ 17,628,387	$ 113,263,710	$ 111,094,365
Commercial and industrial	97,731,619	90,305,936	15,217,201	14,020,297	112,948,820	104,326,233
Sales for resale and other	64,884,772	54,288,305	1,139,338	934,988	66,024,110	55,223,293
Operating revenues	257,170,209	238,060,219	35,066,431	32,583,672	292,236,640	270,643,891
Purchased power	115,015,794	108,998,086	-	-	115,015,794	108,998,086
System control	6,828,337	6,174,737	-	-	6,828,337	6,174,737
Wheeling	12,866,001	12,562,973	-	-	12,866,001	12,562,973
Steam and hydraulic generation	12,180,126	11,426,464	-	-	12,180,126	11,426,464
Transmission and distribution	20,924,788	17,936,464	5,956,708	6,662,760	26,881,496	24,599,224
Source of supply, pumping and purification	-	-	4,630,143	4,240,752	4,630,143	4,240,752
Customer accounting	9,285,136	10,149,095	1,339,873	1,416,158	10,625,009	11,565,253
Conservation expenses	3,766,563	3,679,257	150,779	223,957	3,917,342	3,903,214
Administrative and general	22,381,311	19,082,016	3,948,406	4,094,532	26,329,717	23,176,548
Depreciation on utility plant	19,532,135	17,494,697	5,588,237	5,130,558	25,120,372	22,625,255
Operating expenses	222,780,191	207,503,789	21,614,146	21,768,717	244,394,337	229,272,506
Net operating income	34,390,018	30,556,430	13,452,285	10,814,955	47,842,303	41,371,385
Investment earnings	1,204,649	893,593	75,519	77,349	1,280,168	970,942
Interest earnings, Water	1,139,644	1,159,177	-	-	-	-
Allowance for funds used during construction	(15,939)	64,344	5,765	39,838	(10,174)	104,182
Other revenue	7,268,098	5,675,530	741,546	839,102	8,009,644	6,514,632
Non-operating revenues	9,596,452	7,792,644	822,830	956,289	9,279,638	7,589,756

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, 2014 and 2013

	Electric System		Water System		Total System	
	2014	2013	2014	2013	2014	2013
Other revenue deductions	$ 4,851,130	$ 4,052,107	$ 338,531	$ 362,512	$ 5,189,661	$ 4,414,619
Interest expense and related amortization	12,403,032	12,843,004	2,256,448	2,318,813	14,659,480	15,161,817
Interest expense, Electric	-	-	1,139,644	1,159,177	-	-
Allowance for borrowed funds used during construction	11,020	(55,513)	(2,790)	(22,662)	8,230	(78,175)
Non-operating expenses	17,265,182	16,839,598	3,731,833	3,817,840	19,857,371	19,498,261
Income before capital contributions	26,721,288	21,509,476	10,543,282	7,953,404	37,264,570	29,462,880
Contributions in aid of construction	2,792,653	2,459,663	1,150,317	962,030	3,942,970	3,421,693
Contributed plant assets	15,678	157,414	-	519,115	15,678	676,529
System development charges	-	-	1,825,117	1,434,754	1,825,117	1,434,754
Capital contributions	2,808,331	2,617,077	2,975,434	2,915,899	5,783,765	5,532,976
Change in net position	29,529,619	24,126,553	13,518,716	10,869,303	43,048,335	34,995,856
Total net position at beginning of year	367,222,017	343,095,464	94,762,701	83,893,398	461,984,718	426,988,862
Total net position at end of year	$ 396,751,636	$ 367,222,017	$ 108,281,417	$ 94,762,701	$ 505,033,053	$ 461,984,718

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, 2014 and 2013

	Electric System		Water System		Total System	
	2014	2013	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 272,882,838	$ 247,409,346	$ 35,421,430	$ 31,119,637	$ 308,304,268	$ 278,528,983
FEMA proceeds	1,307,677	-	-	-	1,307,677	-
Other receipts	4,177,594	2,913,245	545,467	794,299	4,723,061	3,707,544
Power purchases	(118,063,119)	(105,449,528)	-	-	(118,063,119)	(105,449,528)
Payments to employees	(33,631,214)	(34,113,566)	(8,308,131)	(8,326,188)	(41,939,345)	(42,439,754)
Payments to suppliers	(54,276,717)	(45,113,639)	(5,888,088)	(7,927,374)	(60,164,805)	(53,041,013)
Payment toward unfunded liability-OPEB	-	(5,740,000)	(26,475)	(1,260,000)	(26,475)	(7,000,000)
Contributions in lieu of taxes	(12,658,191)	(11,988,001)	-	-	(12,658,191)	(11,988,001)
Net cash from operating activities	59,738,868	47,917,857	21,744,203	14,400,374	81,483,071	62,318,231
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(152,783,790)	(170,121,168)	(7,139,450)	(19,751,116)	(159,923,240)	(189,872,284)
Proceeds from sale and maturities of investments	141,439,364	164,579,731	11,188,800	20,902,888	152,628,164	185,482,619
Interest on investments	1,940,645	2,574,948	83,228	118,289	2,023,873	2,693,237
Distributions from equity investment in Harvest Wind	1,660,000	1,790,000	-	-	1,660,000	1,790,000
Distributions from equity investment in WGA	-	200,000	-	-	-	200,000
Net cash from investing activities	(7,743,781)	(976,489)	4,132,578	1,270,061	(3,611,203)	293,572
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	1,141,307	1,160,763	(1,141,307)	(1,160,763)	-	-
Lease receipts/(payments) to Electric from Water	420,744	401,289	(420,744)	(401,289)	-	-
Principal payments	(1,243,371)	(2,311,582)	-	-	(1,243,371)	(2,311,582)
Interest payments	(1,404,269)	(2,960,916)	-	-	(1,404,269)	(2,960,916)
Net cash from non-capital financing activities	(878,312)	(3,503,169)	(1,769,328)	(1,769,329)	(2,647,640)	(5,272,498)

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, 2014 and 2013

	Electric System		Water System		Total System	
	2014	2013	2014	2013	2014	2013
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payments	$ (10,340,000)	$ (6,275,000)	$ (1,780,000)	$ (1,325,000)	$ (12,120,000)	$ (7,600,000)
Additions to plant and non-utility property, net	(20,678,305)	(24,865,760)	(14,961,030)	(11,316,812)	(35,639,335)	(36,182,572)
Interest payments	(12,051,124)	(10,323,257)	(2,151,716)	(2,203,471)	(14,202,840)	(12,526,728)
Additions to preliminary surveys and other	(728,859)	(4,170,480)		-	(728,859)	(4,170,480)
Capital contributions	2,808,331	2,617,076	2,975,434	210,249	5,783,765	2,827,325
Net cash from capital and related financing activities	(40,989,957)	(43,017,421)	(15,917,312)	(14,635,034)	(56,907,269)	(57,652,455)
CHANGE IN CASH AND CASH EQUIVALENTS	10,126,818	420,778	8,190,141	(733,928)	18,316,959	(313,150)
CASH AND CASH EQUIVALENTS, beginning of year	45,934,398	45,513,620	11,142,871	11,876,799	57,077,269	57,390,419
CASH AND CASH EQUIVALENTS, end of year Including cash and cash equivalents restricted or designated: $54,360,258 and $10,582,594 ($37,273,703 and $6,944,024 in 2013) for Electric and Water, respectively	$ 56,061,216	$ 45,934,398	$ 19,333,012	$ 11,142,871	$ 75,394,228	$ 57,077,269

NON-CASH CAPITAL ACTIVITY:
In 2014, plant assets contributed by developers were $15,678 for the electric system, and $0 for the water system ($157,414 for the electric system, and $519,115 for the water system in 2013)

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, 2014 and 2013

	Electric System		Water System		Total System	
	2014	2013	2014	2013	2014	2013
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Net operating income	$ 34,390,018	$ 30,088,926	$ 13,452,285	$ 10,814,955	$ 47,842,303	$ 40,903,881
Adjustments to reconcile net operating income to net cash from operating activities						
Depreciation, including allocated	20,703,788	18,665,505	5,588,237	5,130,558	26,292,025	23,796,063
Other revenue	5,852,443	3,036,528	655,370	698,237	6,507,813	3,734,765
Other revenue deductions	(1,965,140)	(276,702)	(268,295)	(244,643)	(2,233,435)	(521,345)
(Increase) decrease in assets						
Receivables	2,709,619	(3,164,790)	245,095	(1,455,230)	2,954,714	(4,620,020)
Materials and supplies	362,296	(1,805,430)	279,631	(447,742)	641,927	(2,253,172)
Prepayments and special deposits	1,534,240	(5,430,046)	75,173	(1,197,734)	1,609,413	(6,627,780)
Conservation loans, net	269,026	392,048	-	-	269,026	392,048
Long-term receivables, other	-	49,000	-	-	-	49,000
Prepaid retirement obligation	-	-	207,277	207,277	207,277	207,277
Other assets	(2,809,944)	742,115	-	15,894	(2,809,944)	758,009
(Increase) decrease in deferred outflows of resources						
Decrease in fair value of hedging derivatives	993,642	895,832	-	-	993,642	895,832
Increase (decrease) in liabilities						
Accounts payable, accrued payroll and benefits	(4,218,830)	3,790,910	1,509,430	561,520	(2,709,400)	4,352,430
Other liabilities	(936,639)	(140,903)	-	-	(936,639)	(140,903)
Increase (decrease) in deferred inflows of resources	2,854,349	1,074,864	-	317,282	2,854,349	1,392,146
Net cash from operating activities	$ 59,738,868	$ 47,917,857	$ 21,744,203	$ 14,400,374	$ 81,483,071	$ 62,318,231

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, and entered into various power purchase agreements.

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, licensing agreements, river flow levels 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, 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. 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, Completed construction, not classified was a component of the general plant classification. It has been segregated to be shown as a major classification of utility plant for presentation in 2013 and 2014.

(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 used during construction (i.e. interest). Additions, renewals, and betterments with a minimum cost of $5,000 or greater per item are capitalized. Repairs and minor replacements are recorded as operating expenses. Depreciation is computed using straight-line group rates. When property is retired, the property cost and any removal costs are charged to accumulated depreciation. 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.

Asset Class	Estimated Depreciable Lives in Years	
	Electric System	Water System
Land	n/a	n/a
Intangible assets	n/a	n/a
Distribution plant	20-50	-
Hydraulic production	15-50	-
Steam production	15-50	-
Other production	15-50	-
Telecommunications	10	-
Transmission plant	25-50	-
General plant	3-50	3-50
Pumping plant	-	15-50
Supply plant	-	20-50
Treatment plant	-	15-50
T&D plant	-	15-50

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 weighted 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, 2014, the Electric System had $40.4 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 ($39.7 million at December 31, 2013).

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 inflows of resources and other assets to be charged to future periods matching the reporting periods when the revenues and expenses are included for rate-making purposes.

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

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 Other Liabilities. The obligation is expensed as Administrative and General costs as payments occur. For 2013, retail rates included an estimate of these payments on an annual basis. For 2014 and forward, retail rates do not include an estimate of these payments and the regulatory asset has been expensed as the criteria for regulatory accounting is no longer in place.

- **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 Other Liabilities.

- **Accreted Interest on Capital Appreciation Bonds**
  Capital appreciation bonds are issued with a deep discount payable when the bonds mature. Interest accrued, but not yet paid, is included in other liabilities. 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 of resources on the statement 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:

	2014		2013	
	Electric System	Water System	Electric System	Water System
Net investment in capital assets	$ 164,313,120	$ 83,589,681	$ 149,739,166	$ 78,008,145
Restricted for:				
Customer care program	1,108,735	-	1,169,111	-
Health care	-	-	239,058	52,453
Harvest Wind escrow	2,105,446	-	2,132,291	-
System development charges	-	1,715,781	-	441,397
Debt service	14,629,621	3,134,985	13,408,173	3,109,257
	17,843,802	4,850,766	16,948,633	3,603,107
Unrestricted	214,594,714	19,840,970	200,534,218	13,151,449
	$ 396,751,636	$ 108,281,417	$ 367,222,017	$ 94,762,701

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

Operating Revenue and Expense
Operating revenues are recorded on the basis of service delivered while operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 9% of 2014 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 2013). 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 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, 2014 were $731,000 ($700,000 for 2013) for the Electric System and $73,000 ($67,000 for 2013) for the Water System.

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, 2014 were $12.6 million ($11.8 million for 2013).

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 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, 2014, hedging derivatives with a fair value of $5.2 million were reported as an other asset and deferred inflow. Hedging derivatives with a fair value of $589,300 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.

(Note 2 – Power Risk Management, continued)

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 gain of $262,000 was recognized in investment earnings from derivatives in 2014 and a loss of $19,000 was recognized in investment earnings from derivatives in 2013. As of December 31, 2014, investment derivatives with a fair value of ($47,686) (($211,000), for 2013) were recorded as a deferred outflow and investment revenue. Investment derivatives with a fair value of $309,500 ($192,245 for 2013) were recorded as a deferred inflow and investment revenue.

	Options and Swaps			
	Hedging Derivatives		Investment Derivatives	
	2014	2013	2014	2013
Notional value	$ 20,295,040	$ 24,294,640	$ 1,294,500	$ 1,415,100
Fair value - asset	$ 5,157,956	$ 2,186,352	$ 309,500	$ 192,245
Fair value - liability	$ 589,300	$ 1,746,353	$ 47,686	$ 211,100
Cash paid	$ 884,360	$ 951,000	$ 49,000	$ 169,600
Reference rates	Mid-C index	Mid-C index	Mid-C index	Mid-C index
Dates entered into	5/12 through 12/14	1/12 through 11/13	5/12 through 7/14	5/12 through 9/13
Dates of maturity	1/15 through 12/17	1/14 through 12/17	1/15 through 9/15	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 $4.6 million. 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 2014 and 2013, there were no terminations.

Note 3 – Utility plant

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

Electric Utility Plant

	Balance at December 31, 2013	Increases	Decreases	Balance at December 31, 2014
Plant in service not subject to depreciation				
Land	$ 10,252,637	$ -	$ -	$ 10,252,637
Intangible assets	4,451,122	16,912	-	4,468,034
Plant in service subject to depreciation				
Steam production	10,283,972	-	-	10,283,972
Hydro production	169,168,246	1,475,137	-	170,643,383
Wind production	11,789,767	-	-	11,789,767
Transmission	82,054,323	3,006,826	-	85,061,149
Distribution	251,798,961	13,330,591	(211,419)	264,918,133
Telecommunications	17,886,814	323,170	-	18,209,984
General plant	135,256,979	10,536,344	(321,350)	145,471,973
Completed construction, not yet classified	13,909,381	7,151,037	(13,909,381)	7,151,037
Total utility plant in service	706,852,202	35,840,017	(14,442,150)	728,250,069
Accumulated depreciation	(352,189,557)	(20,703,786)	939,462	(371,953,881)
Plant not subject to depreciation:				
Property held for future use	3,436,406	-	(2,608,957)	827,449
Construction work in progress	11,523,260	19,326,855	(20,059,908)	10,790,207
Net utility plant	$ 369,622,311	$ 34,463,086	$ (36,171,553)	$ 367,913,844

	Balance at December 31, 2012	Increases	Decreases	Balance at December 31, 2013
Plant in service not subject to depreciation				
Land	$ 11,088,731	$ 9,320	$ (845,414)	$ 10,252,637
Intangible assets	4,439,495	11,627	-	4,451,122
Plant in service subject to depreciation				
Steam production	10,283,972	-	-	10,283,972
Hydro production	167,912,780	1,255,466	-	169,168,246
Wind production	11,946,308	-	(156,540)	11,789,768
Transmission	79,124,609	2,929,714	-	82,054,323
Distribution	242,882,280	9,199,934	(283,253)	251,798,961
Telecommunications	16,160,368	1,726,446	-	17,886,814
General plant	135,601,093	2,429,684	(2,773,798)	135,256,979
Completed construction, not yet classified	5,559,720	13,909,381	(5,559,721)	13,909,380
Total utility plant in service	684,999,356	31,471,572	(9,618,726)	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	$ 36,772,579	$ (30,839,854)	$ 369,622,311

(Note 3 – Utility plant, continued)

Water Utility Plant

	Balance at December 31, 2013	Increases	Decreases	Balance at December 31, 2014
Plant in service not subject to depreciation				
Land	$ 1,435,733	$ -	$ -	$ 1,435,733
Intangible assets	41,692	234	-	41,926
Plant in service subject to depreciation				
Source of supply	15,935,520	4,643,753	-	20,579,273
Pumping	10,243,726	62,156	-	10,305,882
Water treatment	26,091,088	2,604,491	-	28,695,579
Transmission & distribution	128,620,163	10,540,375	(23,256)	139,137,282
General plant	32,015,587	1,884,127	(382,736)	33,516,978
Completed construction, not yet classified	7,532,014	3,581,708	(7,532,014)	3,581,708
Total utility plant in service	221,915,523	23,316,844	(7,938,006)	237,294,361
Accumulated depreciation	(94,453,719)	(6,518,974)	391,523	(100,581,170)
Plant not subject to depreciation:				
Property held for future use	968,578	-	-	968,578
Construction work in progress	7,737,813	13,680,098	(14,402,222)	7,015,689
Net utility plant	$ 136,168,195	$ 30,477,968	$ (21,948,705)	$ 144,697,458

	Balance at December 31, 2012	Increases	Decreases	Balance at December 31, 2013
Plant in service not subject to depreciation				
Land	$ 1,435,838	$ 816	$ (921)	$ 1,435,733
Intangible assets	37,777	3,915	-	41,692
Plant in service subject to depreciation				
Source of supply	15,935,520	-	-	15,935,520
Pumping	9,738,190	505,536	-	10,243,726
Water treatment	25,397,857	693,231	-	26,091,088
Transmission & distribution	121,903,418	6,843,557	(126,812)	128,620,163
General plant	31,689,418	710,849	(384,680)	32,015,587
Completed construction, not yet classified	3,476,409	7,532,014	(3,476,409)	7,532,014
Total utility plant in service	209,614,427	16,289,918	(3,988,822)	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	$ 24,737,826	$ (15,567,514)	$ 136,168,195

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 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 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.

(Note 4 – Cash and investments, continued)

Detailed amounts for restricted cash and investments were as follows:

	2014		2013	
	Electric System	Water System	Electric System	Water System
Current				
Debt service reserves	$ 9,336,247	$ 2,368,027	$ 9,334,082	$ 2,367,478
Customer deposit and other	2,314,878	-	2,631,362	52,453
Harvest Wind escrow accounts	2,105,446	-	2,132,291	-
Construction funds	23,760,249	2,460,567	18,068,918	5,560,171
System development charge reserves	-	1,726,809	-	441,397
Investments for bond principal and interest	10,122,606	1,637,027	9,331,859	1,638,327
Restricted cash and investments	47,639,426	8,192,430	41,498,512	10,059,826
Non-current				
Construction funds	-	-	9,647,171	2,000,740
Total restricted cash and investments	$ 47,639,426	$ 8,192,430	$ 51,145,683	$ 12,060,566

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, or margin requirements.

- **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 Reserves**
  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, funds set aside for payment of the Harvest Wind bank anticipation note, 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.

Detailed amounts for designated cash and investments were as follows:

	2014		2013	
	Electric System	Water System	Electric System	Water System
Current				
Power unallocated reserve	$ 147,488	$ -	$ 17,791,214	$ -
Power reserve	14,271,470	-	4,278,925	-
Capital improvement reserve	10,271,710	3,322,466	9,267,995	3,676,785
Carmen-Smith reserve	8,424,738	-	13,029,188	-
Operating reserves	39,064,392	2,102,861	6,128,477	386,253
Pension and medical reserve	5,097,591	481,682	4,018,970	-
	77,277,389	5,907,009	54,514,769	4,063,038
Non-current				
Power unallocated reserve	-	-	4,004,910	-
Power reserve	9,089,160	-	9,042,420	-
Capital improvement reserve	8,658,633	1,592,830	4,640,315	-
Carmen-Smith reserve	7,276,998	-	7,029,340	-
Pension and medical reserve	810,532	-	-	-
	25,835,323	1,592,830	24,716,985	-
Total designated cash and investments	$ 103,112,712	$ 7,499,839	$ 79,231,754	$ 4,063,038

Deposits with financial institutions are comprised of bank demand deposits and money market accounts. The total bank balances, as recorded in bank records at December 31, 2014, were $35.3 million. Of the bank balances, $504,000 were covered by federal depository insurance and $34.8 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*.

(Note 4 – Cash and investments, continued)

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, 2014, 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	$ 46,334,141	0.00	25.4%
U.S. Agency Securities				
FHLB		33,644,569		18.4%
FNMA		12,267,336		6.7%
FHLMC		15,915,248		8.7%
FFCB		21,891,617		12.0%
FAMCA		16,096,710		8.8%
Other Agency		9,391,040		5.2%
Subtotal US Agency	AA	109,206,520	1.26	59.8%
U.S. Treasury Securities	AAA	7,065,700	1.88	3.9%
Municipal Bonds	AA	2,574,553	1.81	1.4%
Corporate Bonds	AA	17,421,587	0.91	9.5%
Subtotal all securities		136,268,360	1.26	74.6%
Total		$ 182,602,501	0.94	100.0%

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

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	25.7%
U.S. Agency Securities				
FHLB		17,033,051		9.8%
FNMA		28,827,913		16.4%
FHLMC		24,320,168		13.9%
FFCB		12,325,693		7.0%
FAMCA		22,938,560		13.1%
Other Agency		5,154,352		2.9%
Subtotal US Agency	AA	110,599,737	0.84	63.1%
Municipal Bonds	AA	10,381,348	0.50	5.9%
Corporate Bonds	AA	9,311,449	0.64	5.3%
Subtotal all securities		130,292,534	0.80	74.3%
Total		$ 175,360,126	0.59	100.0%

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 $46.8 million as of December 31, 2014.

(Note 4 – Cash and investments, continued)

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.

Cash and investments consisted of the following:

	Restricted Cash and Investments	Cash and Cash Equivalents and Short-term Investments	Designated Funds	Total Carrying Amount 2014	Total Carrying Amount 2013
ELECTRIC SYSTEM					
Cash on hand	$ -	$ 13,560	$ -	$ 13,560	$ 12,560
Cash in bank	20,571,244	-	-	20,571,244	7,901,671
Investments in the State of Oregon local government investment pool	8,334,513	1,687,401	25,454,501	35,476,415	38,020,168
Investments - US Agencies, Treasuries and Corp.	18,733,669	34,766,805	77,658,211	131,158,685	121,112,954
Total electric system	47,639,426	36,467,766	103,112,712	187,219,904	167,047,353
WATER SYSTEM					
Cash in bank	4,005,054	4,470,232	-	8,475,286	4,095,447
Investments in the State of Oregon local government investment pool	2,670,971	4,280,186	3,906,569	10,857,726	7,047,424
Investments - US Agencies, Treasuries and Corp.	1,516,405	-	3,593,270	5,109,675	9,179,580
Total water system	8,192,430	8,750,418	7,499,839	24,442,687	20,322,451
	$ 55,831,856	$ 45,218,184	$ 110,612,551	$ 211,662,591	$ 187,369,804

Note 5 – Receivables

Significant receivables were as follows:

	2014		2013	
	Electric System	Water System	Electric System	Water System
Current receivables				
Accounts receivable	$ 30,806,963	$ 3,244,624	$ 33,672,023	$ 3,453,234
Allowance for doubtful accounts	(429,600)	(49,401)	(374,171)	(46,335)
Net accounts receivable	30,377,363	3,195,223	33,297,852	3,406,899
Conservation loans to customers	1,124,502	40,919	1,022,058	31,788
Steam transition loans to customers	193,363	-	203,832	-
Economic development loans to customers	15,469	41,825	89,967	42,550
Interest receivable	403,569	18,299	312,582	5,453
Miscellaneous receivables	675,008	-	596,879	-
Note receivable (BPA)	49,000	-	49,000	-
Receivables, less allowances	$ 32,838,274	$ 3,296,266	$ 35,572,170	$ 3,486,690
Long-term receivables				
Conservation loans to customers	$ 1,941,526	$ 73,453	$ 1,562,331	$ 70,339
Steam transition loans to customers	929,781	-	1,246,530	-
Economic development loans to customers	40,273	112,180	347,469	150,786
Note receivable (BPA)	49,000	-	49,000	-
Interest receivable (WGA)	1,896,898	-	1,596,013	-
Long-term receivables, conservation and other	$ 4,857,478	$ 185,633	$ 4,801,343	$ 221,125

Note 6 – Payables

Current payables were as follows:

	2014		2013	
	Electric System	Water System	Electric System	Water System
Accounts payable	$ 16,143,764	$ 1,193,744	$ 20,870,022	$ 821,405
Construction payables	1,062,180	516,207	789,034	672,274
Contributions in lieu of taxes	1,398,177	-	1,410,745	-
Customer deposits	1,206,143	-	1,223,194	-
Equipment purchases	881,523	89,487	35,950	7,891
Member deposits - Public Agency Network	-	-	331,071	-
Miscellaneous payables	237,951	30,035	351,638	4,922
Preliminary investigations payables	35,677	-	97,871	-
Total payables	$ 20,965,415	$ 1,829,473	$ 25,109,525	$ 1,506,492

Note 7 – Other assets and other liabilities

Other assets and other liabilities were as follows:

	2014		2013	
	Electric System	Water System	Electric System	Water System
Other assets				
Non-utility property	$ 10,439,457	$ 153,888	$ 9,310,036	$ 153,888
Derivatives at fair value	5,157,956	-	2,186,352	-
Option premiums long-term	178,641	-	-	-
Joint-use equipment	41,100	17,320	53,430	22,515
Fair value of renewable energy certificates	865,128	-	793,927	-
Prepaid transmission expense - Harvest Wind	1,353,417	-	1,447,189	-
Regulatory assets				
Conservation assets	1,382,424	-	1,432,466	-
Unamortized bond issue costs	2,032,456	742,978	2,340,590	814,573
Sick leave - upon retirement	-	-	951,847	208,942
Net pension obligation - supplemental retirement plan	297,967	65,407	418,571	91,882
Accreted interest - capital appreciation bonds	6,173,802	-	5,476,002	-
Other assets	$ 27,922,348	$ 979,593	$ 24,410,410	$ 1,291,800
Other liabilities				
Derivatives at fair value	$ 589,300	$ -	$ 1,746,356	$ -
Accreted interest on capital appreciation bonds	6,173,802	-	5,476,002	-
Environmental clean up	957,301	128,240	726,800	-
Fair value of renewable energy certificates	865,128	-	793,927	-
Sick leave - upon retirement	991,166	217,573	951,847	208,942
Net pension obligation - supplemental retirement plan	297,967	65,407	418,571	91,882
System development charge	-	11,028	-	282,849
Other liabilities	$ 9,874,664	$ 422,248	$ 10,113,503	$ 583,673

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

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

	2014		2013	
	Electric System	Water System	Electric System	Water System
Deferred outflows of resources				
Accumulated decrease in fair value of hedging derivatives	$ 589,300	$ -	$ 1,746,356	$ -
Accumulated decrease in fair value of investment derivatives	(47,685)	-	(211,100)	-
Unamortized losses on bond refunding	1,189,521	764,555	1,401,011	843,318
Deferred outflows of resources	$ 1,731,136	$ 764,555	$ 2,936,267	$ 843,318
Deferred inflows of resources				
Accumulated increase in fair value of hedging derivatives	$ 5,157,956	$ -	$ 2,186,352	$ -
Accumulated increase in fair value of investment derivatives	(309,500)	-	(192,245)	-
Regulatory deferred inflows				
Inventory adjustment	1,754,844	327,980	1,754,844	327,980
Deferred inflows of resources	$ 6,603,300	$ 327,980	$ 3,748,951	$ 327,980

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, 2014, the Board had a receivable in the amount of $1.9 million ($1.6 million at December 31, 2013) 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 2014, no distributions were received ($200,000 were received in 2013). The balance of the investment as of December 31, 2014 was $432,000 (($639,000), a negative balance, in 2013). 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 proceeds of $1.5 million for partial settlement of the claim were received during 2014.

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, US 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, 2014, the balance of the Board's investment in Harvest Wind was $26.3 million ($27.6 at December 31, 2013) including estimated income of $402,000 (income of $2.1 million in 2013) and distributions of $1.7 million ($1.8 million in 2013).

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:

	2014	2013
Electric Utility System Revenue and Refunding Bonds		
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2012-2022	$ 19,680,000	$ 20,990,000
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	3,355,000	3,835,000
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	9,015,000	9,565,000
2008 Series A, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2012-2028	29,065,000	30,605,000
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	25,170,000	26,860,000
2011 Series A, 6-08-11 issue		
Serial Bonds 3.00% - 5.00%, due 2013-2032	48,340,000	50,260,000
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	7,695,000	8,440,000
2012 Series, 8-1-12 issue		
Serial Bonds 2.00% - 5.00%, due 2013-2032	49,920,000	52,025,000
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
	248,847,556	259,187,556
Add unamortized premium	11,556,259	12,932,359
Electric System bonds payable, long-term and current portion	260,403,815	272,119,915
Less current portion	(12,700,000)	(10,340,000)
Electric System bonds payable, long-term portion	247,703,815	261,779,915
Junior lien loan payable to Bank of America, Harvest Wind Project	28,752,398	29,995,768
Less current portion	(28,752,398)	(1,243,370)
Electric System bonds and note payable, net of current portion	247,703,815	290,532,313

(Note 11 – Long-term debt, continued)

	2014	2013
Water Utility System Revenue and Refunding Bonds		
2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%, due 2012-2022	$ 5,840,000	$ 6,435,000
2005 Series, 8-16-05 issue		
Serial Bonds, 3.50% - 5.00%, due 2012-2025	6,610,000	7,070,000
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	5,120,000	5,440,000
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	8,960,000	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	2,625,503	2,832,780
	50,025,503	52,012,780
Add unamortized premium	380,196	408,209
Less unamortized discount	(75,198)	(84,064)
Less inter-system payable	(2,625,503)	(2,832,780)
Water System bonds and note payable, long-term and current portion	47,704,998	49,504,145
Less current portion	(1,840,000)	(1,780,000)
Water System bonds payable, net of current portion	45,864,998	47,724,145
Total Systems long-term debt, net of current portion	$ 293,568,813	$ 338,256,458

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
2015	$ 41,452,398	$ 12,270,151	$ 2,047,277	$ 2,088,166
2016	13,510,000	11,079,808	2,127,277	2,016,551
2017	14,480,000	10,445,974	2,202,277	1,938,464
2018	15,525,000	9,744,411	2,287,277	1,860,476
2019	16,680,000	8,969,968	2,367,277	1,776,952
2020 - 2024	74,651,717	38,795,075	11,486,385	7,515,917
2025 - 2029	40,030,839	30,809,999	10,312,733	5,528,364
2030 - 2034	34,405,000	10,502,913	8,025,000	3,463,111
2035 - 2039	18,275,000	4,447,565	8,105,000	1,450,462
2040 - 2042	8,590,000	597,063	1,065,000	53,250
	$ 277,599,954	$ 137,662,927	$ 50,025,503	$ 27,691,713

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, 2014 and 2013, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

(Note 11 – Long-term debt, continued)

Long-term debt activity for the year ended December 31, 2014 was as follows:

	Outstanding January 1, 2014	Issued During Year	Redeemed During Year	Outstanding December 31, 2014	Due Within One Year
Electric Revenue and Revenue Refunding Bonds - Current Interest, interest rates from 1.0% to 6.32%, maturing through 2042 (original issue $280,200,000)	$ 255,120,000	$ -	$ (10,340,000)	$ 244,780,000	$ 12,700,000
Electric Revenue Bonds - Capital Appreciation interest rates from 7.13% to 7.21%, maturing from 2027 through 2033 (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)	29,995,768	-	(1,243,370)	28,752,398	28,752,398
Total Electric System	289,183,324	-	(11,583,370)	277,599,954	41,452,398
Water Revenue Refunding Bonds interest rates from 3.5% to 5.0% maturing through 2030 (original issue $12,540,000)	11,250,000	-	(460,000)	10,790,000	475,000
Water Revenue Bonds interest rates from 2.75% to 5.25% maturing through 2040 (original issue $42,895,000)	37,930,000	-	(1,320,000)	36,610,000	1,365,000
Total Water System	49,180,000	-	(1,780,000)	47,400,000	1,840,000
Total bonded debt	$ 338,363,324	$ -	$ (13,363,370)	$ 324,999,954	$ 43,292,398

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 12 – Intersystem receivables and payables

	2014		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
Current			
Interest	$ 219,084	$ (219,084)	$ -
Note - prepaid retirement obligation	207,277	(207,277)	-
Lease	441,143	(441,143)	-
	867,504	(867,504)	-
Non-current			
Note - prepaid retirement obligation	2,418,226	(2,418,226)	-
Lease	15,518,082	(15,518,082)	-
	17,936,308	(17,936,308)	-
Totals	$ 18,803,812	$ (18,803,812)	$ -

	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)	$ -

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.

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, 2014 (and as of December 31, 2013), minimum lease payments were $99,000 per month through year 2035, and $13,000 per month for years 2035 through 2040 on a capitalized value of $17.6 million.

Annual totals for lease payments (including interest) as of December 31, 2014 were as follows:

2015	$ 1,187,406
2016	1,187,406
2017	1,187,406
2018	1,187,406
2019	1,187,406
2020 - 2024	5,937,030
2025 - 2029	5,937,030
2030 - 2034	5,937,030
2035 - 2039	1,623,526
2040	101,443
	$ 25,473,089

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,

(Note 13 – Power supply resources, continued)

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. The average monthly Block deliveries on an annual basis are 89 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-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, and supplemented the application with a comprehensive settlement agreement, signed by state and federal agencies, Native American tribes and non-governmental organizations on October 21, 2008. FERC action on EWEB's license application is still pending.

Since 2008, EWEB has received, and will continue to receive, an annual operating license from FERC until the new license is issued. The Board expects the new license will be issued later in 2015.

- **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 owned and operated by PGE. The Stone Creek facility is operated and maintained for EWEB by 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. The Smith Creek project is operated and maintained for EWEB by Dominion Power Services, Inc. and is licensed through 2037.

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

(Note 13 – Power supply resources, continued)

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

Contract Resources

- **Priest Rapids and Wanapum Hydroelectric Projects**
  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 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. Nameplate capacity is 19.8 MW. Expected average output is approximately 14 aMW. This contract expires on April 5, 2026.

Solar PV Purchases

EWEB supports 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 2014, EWEB had acquired contracts with total capacity slightly over 2 MW and 0.24 aMW of energy.

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.

(Note 14 – Retirement benefits, continued)

Funding Policy

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

In November 2006, the Board elected to make a lump-sum payment to OPERS of $7.2 million which lowered the employer contribution rate and OPERS allocated to a "side account" which is tracked separately for rate purposes. The Board's current employer contribution rate is 24.89% and 19.71% 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 2014 and 2013.

Annual Pension Cost

Because all participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are currently calculated in conformance with the parameters of GASB No. 27, Accounting for Pensions by State and Local Government Employers, there is no net pension obligation to report, and annual required contributions are equal to the annual pension cost. The Board's annual pension cost of $12.3 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
12/31/2012	$ 12,535,203	100%	$ -
12/31/2013	$ 11,851,880	100%	$ -
12/31/2014	$ 12,263,780	100%	$ -

The required contribution was determined as part of the December 31, 2013, 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.

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
12/31/2011	$ 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%
12/31/2013	$ 252,345,343	$ 301,660,662	$ 49,315,319	84%	$ 41,130,143	120%

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 December 31, 2013, with the next actuarial valuation to be completed during 2015 for the plan year ended December 31, 2014.

The Board's pension liability and the annual required contribution rate were determined as part of the December 31, 2013 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 2.50% per year, cost-of-living adjustments of 2.0% per year for post-retirement benefits and 1994 Group Annuity Mortality rate.

(Note 14 – Retirement benefits, continued)

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

Annual required contribution (ARC)	$	306,975
Interest on net pension obligation		7,288
Adjustment to ARC		(53,408)
Annual pension cost		260,855
Contributions made		30,000
Increase (decrease) in net pension obligation		230,855
Net pension obligation, December 31, 2013		132,519
Net pension obligation, December 31, 2014	$	363,374

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
12/31/2011	$ 262,710	169%	$ 329,163
12/31/2012	$ 247,256	180%	$ 132,519
12/31/2013	$ 260,855	12%	$ 363,374

Funded Status and Funding Progress

As of December 31, 2013, the plan was 2.2% funded. The actuarial accrued liability for benefits was $1.5 million, and the actuarial value of assets was $33,000, resulting in an unfunded actuarial accrued liability (UAAL) of $1.5 million. The Board has designated funds of $1.0 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 $360,000 a year. The actuarial value of assets represents the market value of investments using recognized pricing services.

(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
1/1/2010	$ 64,826	$ 2,181,270	$ 2,116,444	3.0%
1/1/2012	$ 193,120	$ 1,934,102	$ 1,740,982	10.0%
12/31/2013	$ 32,975	$ 1,491,157	$ 1,458,182	2.2%

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 $8.5 million during 2013 and $1.5 million during 2014.

(Note 14 – Retirement benefits, continued)

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 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 2014 and the preceding years were as follows:

Fiscal Year Ended	Annaul OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
12/31/2012	$ 2,289,089	80%	$ (84,662)
12/31/2013	$ 1,535,043	550%	$ (6,997,531)
12/31/2014	$ 1,535,043	100%	$ (7,004,361)

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.

(Note 16 – Trojan nuclear plant, continued)

A summary of the balance sheets for EWEB's share of the Trojan Project as of September 30, 2014 and September 30, 2013 is as follows.

	Unaudited September 30, 2014	Unaudited September 30, 2013
Assets		
Current assets	$ 533,376	$ 301,422
Long-term receivable, BPA, net	39,467,631	40,860,073
Total assets	$ 40,001,007	$ 41,161,495
Liabilities		
Current liabilities	$ 2,268,521	$ 1,619,627
Accumulated provision for decommissioning costs	37,732,486	39,541,868
Total liabilitites	$ 40,001,007	$ 41,161,495

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

Note 17 – Commitments and contingencies

Electric Projects

- **Construction**
  Contractual commitments for roll gate repair at the Leaburg hydro project and for crane refurbishment at December 31, 2014 were $2.6 million ($1.3 million for roll gate repair, and vehicle and transformer purchases at December 31, 2013).

- **Carmen-Smith Relicensing**
  Commitments for preconstruction costs to relicense the Carmen-Smith Project were $3.8 million for engineering and environmental services and manufacture of transformers ($4.0 million at December 31, 2013).

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

Water Projects

Construction related contracts for seismic and intake improvements at the filtration plant and relocation of water mains were $1.2 million ($1.5 million at December 31, 2013 for Willamette River Crossing and improvements in filtration and reservoirs).

Other Projects

The Board is completing implementation of an asset management system for the Electric and Water Systems with a contractual commitment of $340,000 at December 31, 2014 ($300,000 at December 31, 2013 for a fuel tank at the Board's shared facility for Electric and Water operations).

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, 2014, a total claims liability of approximately $130,000 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
2012	General Liability	$ 73,300	$ 439,400	$ (189,263)	$ 323,437
2013	General Liability	323,437	94,046	(290,749)	126,734
2014	General Liability	126,734	112,241	(108,975)	130,000

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, 2014.

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners
Eugene Water & Electric Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Eugene Water & Electric Board's (the Board), which comprise the individual and combined statements of net position as of December 31, 2014, and the related statements revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 27, 2015.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control described in the accompanying Schedule of Finding and Questioned Costs as item 2014-001 that we consider to be a significant deficiency

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board's Response to Findings

The Board's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
March 27, 2015

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

The Board of Commissioners
Eugene Water & Electric Board

Report on Compliance for Each Major Federal Program
We have audited Eugene Water & Electric Board's (the "Board") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal program for the year ended December 31, 2014. The Board's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program
In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2014.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE (continued)

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
March 27, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of Major Federal Programs

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued*
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Section II - Financial Statement Findings

Finding 2014-001

Criteria:
Ensuring an understanding of responsible parties over design development and maintenance of key financial information systems is a critical mechanism for ensuring the integrity of information systems and the reporting of the Board's finances.

Condition:
General controls require that major system development or system implementation projects are planned, controlled and executed in a coordinated way that addresses the needs of key stakeholders and maximizes a project's contribution to the organization's success.

Effect:
The Board has implemented key financial and operational IT systems without a clear understanding of service level's required by the internal IT department and coordination between key stakeholders was not always present.

Cause:
The lack of service level agreements with the internal IT department caused confusion of roles and responsibilities of internal IT versus external contractors, which resulted in extending external IT contracts. Also, lack of coordination and collaboration of key stakeholders caused reliance on third party consultants and additional projects to realize the full benefit of the system.

Recommendation:
The Board should ensure that service level agreements are implemented for all key financial and operational systems and ensure key stakeholder coordination in future system implementations.

View of Responsible Officials:
Management is preparing service level agreements for the recently implemented enterprise system, and will determine where other agreements are needed.

Section III - Federal Award Findings and Questioned Costs

None reported

SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
Year ended December 31, 2014

Federal Grantor/Pass-through Grantor Program Title	CFDA Number	Agency or Pass-through Number	Expenditures
Environmental Protection Agency			
Nonpoint Source Implementation Program	66.460	045-14	$ 5,596
Department of Homeland Security / State of Oregon			
Office of Emergency Management			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	DR-4169-OR	1,307,677
Total Federal Awared Expended			$ 1,313,273

See notes to Schedule of Expenditures of Federal Awards.

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Eugene Water & Electric Board (the Board) under programs of the federal government for the year ended December 31, 2014. The information presented in this Schedule is presented in accordance with the requirement of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State and Local Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2014

	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
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	-	-	-	-	-	-
	23,747,556	23,948,320	6,885,000	1,964,763	9,015,000	2,657,055
Less current portion	1,520,000	-	500,000	-	575,000	-
	$ 22,227,556	$ 23,948,320	$ 6,385,000	$ 1,964,763	$ 8,440,000	$ 2,657,055

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2014

	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
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	-	-	-	-	-	-
	45,060,000	25,146,437	25,170,000	6,440,250	62,715,000	41,107,152
Less current portion	1,490,000	-	1,950,000	-	2,015,000	-
	$ 43,570,000	$ 25,146,437	$ 23,220,000	$ 6,440,250	$ 60,700,000	$ 41,107,152

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2014

	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
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	-	-	-	-	-	-	-
	7,695,000	1,582,842	68,560,000	34,136,114	248,847,556	136,982,933	385,830,489
Less current portion	755,000	-	3,895,000	-	12,700,000	-	12,700,000
	$ 6,940,000	$ 1,582,842	$ 64,665,000	$ 34,136,114	$ 236,147,556	$ 136,982,933	$ 373,130,489

WATER SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2014

	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
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	-	-	-	-	-	-
	5,840,000	1,257,829	10,790,000	4,363,174	13,875,000	9,985,333
Less current portion	620,000	-	475,000	-	335,000	-
	$ 5,220,000	$ 1,257,829	$ 10,315,000	$ 4,363,174	$ 13,540,000	$ 9,985,333

WATER SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2014

	Revenue 2011 Series 6-29-11		Total Water System Payments		
	Principal	Interest	Principal	Interest	Totals
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	-	-	-	-	-
	16,895,000	12,085,377	47,400,000	27,691,713	75,091,713
Less current portion	410,000	-	1,840,000	-	1,840,000
	$ 16,485,000	$ 12,085,377	$ 45,560,000	$ 27,691,713	$ 73,251,713

ELECTRIC SYSTEM (Unaudited)
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2014

	Investments for Bond Principal & Interest	Debt Service Reserve	Construction Funds	Customer & Escrow Deposit Reserve	Total All Funds
Ending balance - December 31, 2013	$ 9,331,859	$ 9,334,082	$ 27,716,089	$ 4,763,653	$ 51,145,683
Deposits from general fund	23,180,071	-	91,863	434,265	23,706,199
Interest earnings	1,800	2,165	99,759	6,880	110,604
Other transfers			-	-	-
Receipts	23,181,871	2,165	191,622	441,145	23,816,803
Principal payments	10,340,000	-	-	-	10,340,000
Interest payments	12,051,124	-	-	-	12,051,124
Transfers to general fund	-	-	4,147,462	784,474	4,931,936
Other transfers	-	-	-	-	-
Disbursements	22,391,124	-	4,147,462	784,474	27,323,060
U.S. agency securities, at market	-	-	16,631,878	2,101,791	18,733,669
Cash in bank	10,122,606	9,336,247	-	1,112,391	20,571,244
State of Oregon Local Government Investment Pool	-	-	7,128,371	1,206,142	8,334,513
Ending balance - December 31, 2014	$ 10,122,606	$ 9,336,247	$ 23,760,249	$ 4,420,324	$ 47,639,426

WATER SYSTEM (Unaudited)
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2014

	Investments for Bond Principal & Interest	Debt Service Reserves	SDC Reserves	Construction Funds	Other Restricted	Total All Funds
Ending balance - December 31, 2013	$ 1,638,327	$ 2,367,478	$ 441,397	$ 7,560,911	$ 52,453	$ 12,060,566
Deposits from general fund	3,930,107	-	1,858,843	-	-	5,788,950
Interest earnings	309	549	6,037	19,854	258	27,007
Receipts	3,930,416	549	1,864,880	19,854	258	5,815,957
Principal payments	1,780,000	-	-	-	-	1,780,000
Interest payments	2,151,716	-	-	-	-	2,151,716
Transfers to general fund	-	-	579,468	5,120,198	52,711	5,752,377
Other transfers	-	-	-	-		-
Disbursements	3,931,716	-	579,468	5,120,198	52,711	9,684,093
U.S. agency securities, at market	-	-	-	1,516,405	-	1,516,405
Cash in bank	1,637,027	2,368,027	-	-	-	4,005,054
State of Oregon Local Government Investment Pool	-	-	1,726,809	944,162	-	2,670,971
Ending balance - December 31, 2014	$ 1,637,027	$ 2,368,027	$ 1,726,809	$ 2,460,567	$ -	$ 8,192,430

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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MOSS-ADAMS LLP
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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *OREGON AUDIT STANDARDS*

Board of Commissioners
Eugene Water & Electric Board

We have audited the individual and combined financial statements of the Eugene Water & Electric Board (the "Board") as of and for the year ended December 31, 2014 and have issued our report thereon dated March 27, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal controls described in the accompanying Schedule of Finding and Questioned Costs as item 2014-001 that we consider to be a significant deficiency.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *OREGON AUDIT STANDARDS* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance of which could have a direct and material effect on the determination of financial statement amounts.

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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to:

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets.
- 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.

In connection with our testing nothing came to our attention that caused us to believe the Board was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Purpose of this Report

This report is intended solely for the information of the Board of Commissioners, management, and the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.

Julie Desimone

Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
March 27, 2015

Rely on us.

EWEB

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