Eugene Water & Electric Board

Annual Report
for the year ended December 31, 2003

Eugene Water & Electric Board

December 31, 2003

Board of Commissioners
500 East Fourth Avenue
Eugene, Oregon 97401

Mr. Patrick Lanning	President
Mr. Ron Farmer	Vice-President
Ms. Sandra Bishop	Member
Ms. Dorothy Anderson	Member
Mr. Mel Menegat	Member

Officers
500 East Fourth Avenue
Eugene, Oregon 97401

Mr. Randy L. Berggren	General Manager, Secretary
Ms. Krista K. Hince	Assistant Secretary
Mr. James H. Origliosso	Treasurer
Ms. Catherine D. Bloom	Assistant Treasurer

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Report of Independent Auditors

To the Board of Commissioners of
Eugene Water & Electric Board

In our opinion, the accompanying basic financial statements, as listed in the table of contents, present fairly, in all material respects, the financial position of the Eugene Water & Electric Board (the "Board") at December 31, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These basic financial statements are the responsibility of the Board's management; our responsibility is to express an opinion on these basic financial statements based on our audits. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the notes to the basic financial statements, Eugene Water & Electric Board adopted the new financial reporting model of the Government Accounting Standards Board as of January 1, 2002.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Ann E. Rhoads, Partner

January 31, 2004

MANAGEMENT’S DISCUSSION AND ANALYSIS

Eugene Water & Electric Board

Management's Discussion and Analysis

The Eugene Water & Electric Board ("Board") is an administrative unit of the City of Eugene, Oregon and is responsible for the operation of the water and electric utilities of the City. The responsibilities delegated to the Board pursuant to the City Charter are conducted under the direction of a publicly elected board of five commissioners. The Board operates vertically integrated electric and water utilities that serve 82,000 electric customers and 48,000 water customers.

Financial Policies and Controls

The Board's financial management system consists of financial policies, financial management strategies, and the internal control structure including the annual budgets and external audit of its financial statements. The Board has the exclusive right to determine rates and charges for services provided. The Board has established standards for financial performance and rate competitiveness that place its financial performance above the average of publicly owned electric and water utilities. This objective is reflected in evaluations of creditworthiness performed by the major credit rating agencies. Current underlying ratings are:

	Fitch	Moody's	Standard & Poors
Electric System	A+	A1	AA-
Water System	AA	Aa3	AA

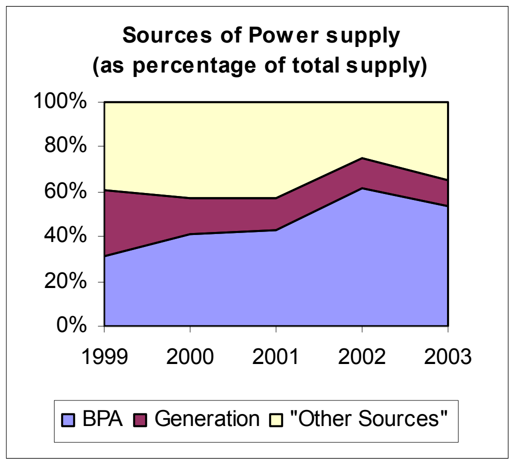
Power Supply Risk Management Policies

The Board must comply with State statues and City Charter that authorize and control its activities and scope of its purchases and investments. Accordingly, EWEB's activities in the power markets must be associated with the provision of electricity to meet anticipated sales and generation forecasts. To ensure this requirement is met Board policies restrict the maximum long and short positions that can be taken relative to forward forecasts. The Board may grant exception to this policy to deal with specific circumstances, such as long-term resource acquisitions.

Electric System

The Electric System serves a 238-square mile area, including the City and adjacent suburban areas. Power supply requirements are met primarily from hydroelectric sources, including self-generation and purchases from Bonneville Power Administration ("BPA"). Heating load and general economic conditions are the primary influences on retail sales. However, overall financial condition is influenced to a much greater degree by the availability of water for generation that is in excess of historically critical conditions both locally and regionally.

During 2003 the Electric System purchased 54% of its power from BPA, the majority of which is provided under a "Slice of System" contract with the remainder obtained under a standard output ("Block") contract. Under the Slice agreement EWEB has rights to 2.4% of the output of the federal BPA system. At critical water conditions this portion of output, together with EWEB's self-generation is sufficient to serve retail load. The price of Slice power is set assuming critical water conditions. To the extent water conditions are above critical, the resulting secondary output is obtained at no additional charge.



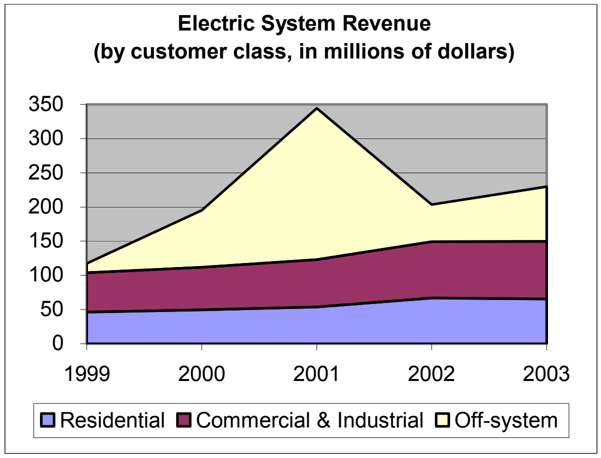
In its budgeting and planning, EWEB assumes normal water conditions and an average price for wholesale sales of secondary power that is surplus to its retail needs. Sales prices are supported by output sales into forward markets and by financial instruments that have the effect of setting a minimum price for sales of secondary power.

Financial Summary and Analysis

During 2003 the Electric System's gross operating revenues increased by $26.6 million (or 13%). Retail revenues remained essentially unchanged. The largest factor in the increase in operating revenue was the large increase in wholesale sales, which was up by 47% ($26 million). This performance was the result of:

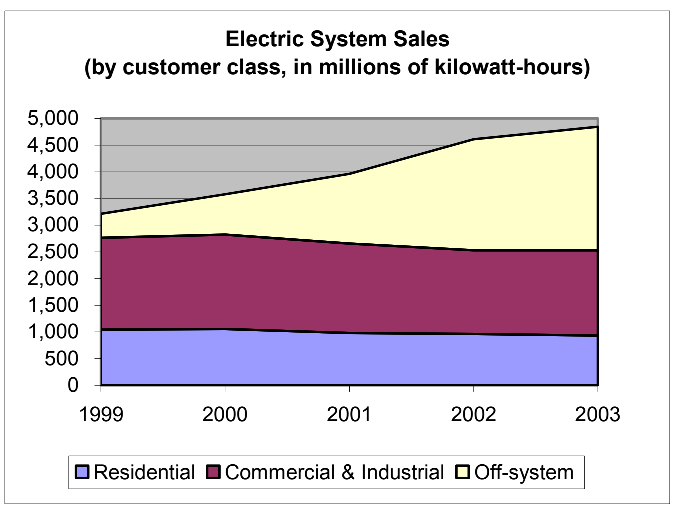
- Wholesale prices that averaged $10 per mWh higher than in 2002
- 470,000 mWh of additional output available for wholesale sales.

Resulting net operating revenue increased $1.7 million (by 6.4%).



Selected Financial Data

(in millions of dollars)	2003	2002
Operating Revenue	$235.7	$209.1
Operating Expenses	207.5	182.6
Operating Income	28.2	26.5
Net Income before Contributed Capital	8.8	8.9
Contributed Capital	2.4	1.9
Change in Net Assets	11.2	10.8
Total Assets	378.4	376.8
Total Liabilities	258.3	268.0
Total Net Assets	$120.1	$108.8



Capital Asset and Long-Term Debt Activity

Total utility plant in service as of December 31, 2003 and 2002 consisted of the following:

(in millions of dollars)	2003	2002
Generation	$160	$137
Transmission & Distribution	205	198
General Plant	65	64
Total Plant in Service	$430	$399

As of year-end, the Electric System had $430 million of plant-in-service. Additions to electric plant consisted primarily of relicensing related improvements to the Leaburg/Walterville Hydroelectric Project. Utility plant net of depreciation was $195 million. This represented an increase in net plant of $21 million (or 12%) over 2002. Capital construction was provided for through a combination of construction fees, cash flow from revenues, and long-term revenue bonds.

Total liabilities as of December 31 2003 and 2002 consisted of the following:

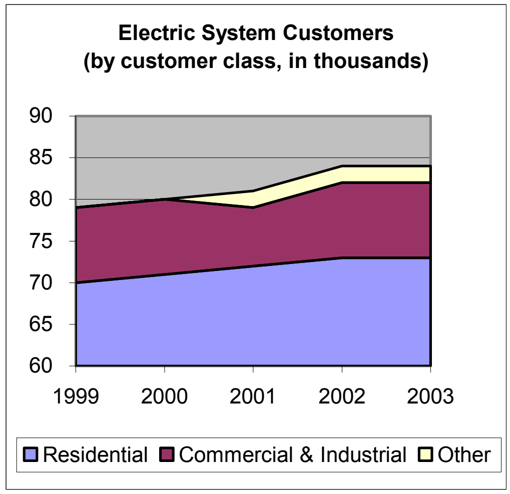
(in millions of dollars)	2003	2002
Total current liabilities	$45.6	$57.6
Total non-current liabilities	212.7	210.4
Total liabilities	$258.3	$268.0

EWEB issues revenue bonds to provide for the construction of capital facilities. At year-end, the Electric System had $214 million of revenue bonds outstanding versus $211 million last year. During the year Electric System Revenue and Refunding Bonds were issued in the amount of $40.9 million to refund the Series 1994 and Series 1998B bonds at lower rates of interest and to finance $5.8 million of hydroelectric project relicensing costs.

Economic Factors, Rates, and Outlook

Electric rates remained unchanged in 2003. During 2004 retail electric rates are expected to increase by approximately 5%-8%. Most of the increase in revenue requirements is caused by substantial increase in capital expenditures from rates to fund improvements in electric distribution infrastructure. The remainder is to pass through the effects of changes in wholesale electricity and transmission charges from BPA.

Included in rates is a surcharge that is designed to recover from the effects of the energy crisis of 2000-01. This event necessitated the borrowing of $30 million on a short-term basis to support working capital requirements for the purchase of wholesale power at unusually high prices. This borrowing was fully retired during 2003. The surcharge is to remain in effect until $10 million of cash reserves have been accumulated in the operating reserve for power costs, currently estimated to occur on or before December 31, 2004.

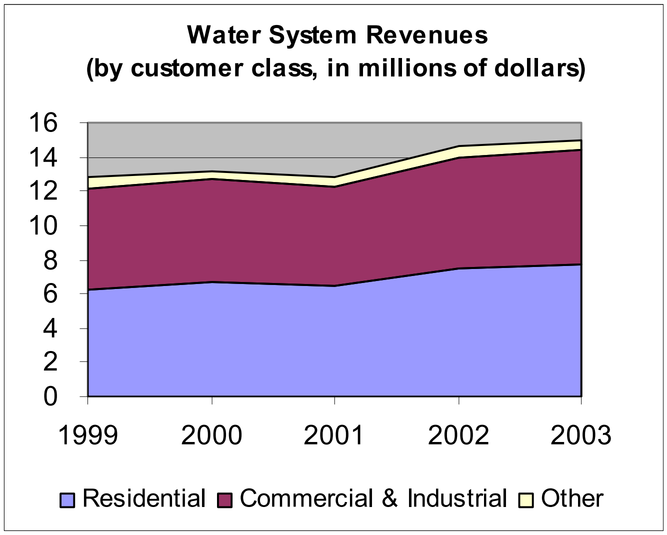


Water System

The Water System provides water to all areas within Eugene, and two water districts and one private water utility outside Eugene. During 2003 the Water System sold 1.102 billion gallons of water (6% of total sales) to the water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, the largest full-treatment plant 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 25 enclosed reservoirs with a combined storage capacity of 92 million gallons, 31 pump stations and over 700 miles of distribution mains.

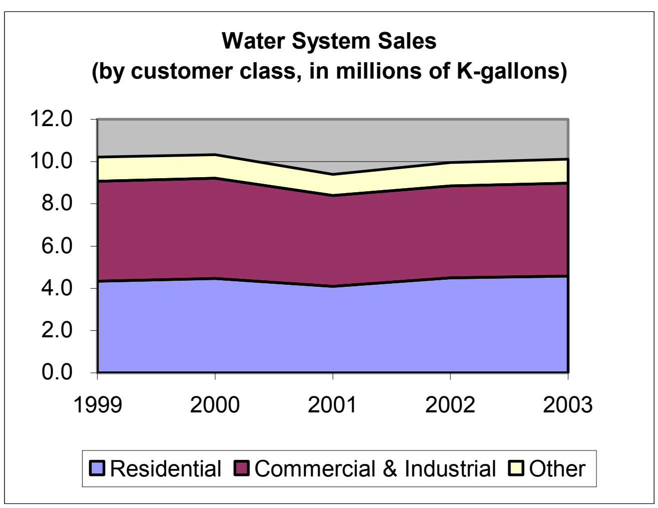
Financial Summary and Analysis

During 2003, Water System operating revenues increased by $281,000 (or 1.9%). However due to generally higher operation and maintenance costs net operating revenues decreased by $357,000 (or 14%), resulting in net income of $3.1 million which is 6.5% less than 2002.



Selected Financial Data

(in millions of dollars)	2003	2002
Operating Revenue	$15.0	$14.7
Operating Expenses	12.8	12.2
Operating Income	2.2	2.5
Net Income before Contributions	3.1	3.3
Contributions in aid of Construction	1.5	0.9
Change in Net Assets	4.6	4.2
Total Assets	85.7	79.1
Total Liabilities	43.2	41.1
Total Net Assets	$42.5	$38.0



Capital Asset and Long-term Debt Activity

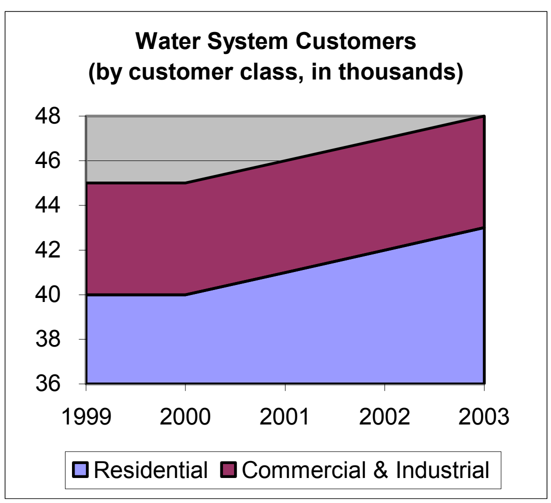
Total Water System plant in service as of December 31, 2003 and 2002 consisted of the following:

(in millions of dollars)	2003	2002
Production	$30	$17
Transmission and Distribution	63	58
General Plant	4	4
Total Water System Plant in Service	$97	$79

As of year-end the Water System had $97 million invested in a variety of capital assets. Utility plant net of accumulated depreciation was $38.3 million. This represented an increase in net plant of $15.9 million (or 71%) over 2002, which is attributable to the completion of construction of a new 20 million gallon reservoir at the Hayden Bridge Filtration Plant. Capital construction is provided for through a combination of construction fees, cash flow from revenues, and long-term revenue bonds.

Total liabilities as of December 31, 2003 and 2002 consisted of the following:

(in millions of dollars)	2003	2002
Total Current Liabilities	$4.4	$3.1
Total Non-current Liabilities	38.7	38.0
Total Liabilities	$43.1	$41.1



At year-end the Water System had $33.7 million of revenue bonds outstanding versus $34.4 million at prior year-end. No Water System Revenue Bonds were issued during 2003.

System Rates

Water rates remained unchanged in 2003. During 2004 water rates are expected to increase by approximately 6%. Most of the increase in revenue requirements is caused by the increased cost of operations.

BASIC FINANCIAL STATEMENTS

Eugene Water & Electric Board

Electric and Water Systems

Balance Sheets

December 31, 2003 and 2002

	Electric System		Water System	
Assets	**2003**	**2002**	**2003**	**2002**
Plant in service	$ 429,872,438	$ 398,535,038	$ 96,978,806	$ 78,787,218
Less - Accumulated depreciation	234,390,397	224,353,862	58,663,269	56,417,292
	195,482,041	174,181,176	38,315,537	22,369,926
Property held for future use	739,429	627,477	1,012,606	1,070,956
Construction work in progress	35,233,928	38,107,039	12,103,261	22,262,238
Net Utility Plant	231,455,398	212,915,692	51,431,404	45,703,120
Construction funds	10,120,491	28,486,568	8,677,696	8,835,512
Investments for debt service	7,551,594	8,607,315	1,090,540	1,084,921
Restricted Cash and Investments	17,672,085	37,093,883	9,768,236	9,920,433
Cash and cash equivalents	16,175,280	17,073,092	2,394,924	1,483,559
Short-term investments	3,016,905	6,562,087	-	-
Designated cash and investments				
Capital improvement fund	-	-	10,688,075	12,342,266
Operating fund	823,716	865,617	1,333,056	1,038,414
Pension and medical reserve	1,469,596	-	366,400	-
Receivables, less allowances	31,786,206	28,684,745	1,188,494	1,260,983
Materials and supplies, at average cost	2,070,264	2,055,059	479,106	374,612
Prepayments and special deposits	5,751,534	3,579,393	495,227	425,188
Current Assets	61,093,501	58,819,993	16,945,282	16,925,022
Prepaid retirement obligation	20,881,214	23,437,625	5,220,301	3,815,427
Investment in Western Generation Agency	9,819,504	10,201,306	-	-
Long-term receivable, conservation and other	5,681,886	6,738,406	-	-
Note receivable, Water	5,450,610	3,976,643	-	-
Deferred charges and other	26,302,029	23,615,165	2,374,638	2,718,311
Other Assets	68,135,243	67,969,145	7,594,939	6,533,738
Total Assets	$ 378,356,227	$ 376,798,713	$ 85,739,861	$ 79,082,313
Liabilities				
Accounts payable	$ 29,913,446	$ 33,930,124	$ 2,376,796	$ 1,139,043
Accrued payroll and benefits	2,458,657	2,434,162	486,250	472,508
Accrued interest on long-term debt	4,695,109	5,509,272	727,830	742,149
Derivative liability	3,879,917	1,788,485	-	-
Commercial paper notes	-	10,000,000	-	-
Long-term debt due within one year	4,645,000	3,904,000	825,000	790,000
Current Liabilities	45,592,129	57,566,043	4,415,876	3,143,700
Long-term Debt - bonds payable	209,494,599	207,329,242	32,898,129	33,657,504
Note payable, Electric	-	-	5,450,610	3,976,643
Other Liabilities and Deferred Credits	3,174,321	3,058,176	401,213	343,437
Total Liabilities	258,261,049	267,953,461	43,165,828	41,121,284
Net Assets				
Invested in capital assets, net of related debt	66,439,004	68,184,877	25,465,593	18,520,515
Restricted for:				
Capital projects	2,376,133	1,915,724	192,549	1,570,353
Debt service	7,551,594	8,607,315	1,090,540	1,084,921
Unrestricted	43,728,447	30,137,336	15,825,351	16,785,240
Total Net Assets	120,095,178	108,845,252	42,574,033	37,961,029
Total Liabilities and Total Net Assets	$ 378,356,227	$ 376,798,713	$ 85,739,861	$ 79,082,313

Note: Inter system note receivable and payable have been eliminated from the Total Systems columns.

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

Total Systems	
2003	2002
$ 526,851,244	$ 477,322,256
293,053,666	280,771,154
233,797,578	196,551,102
1,752,035	1,698,433
47,337,189	60,369,277
282,886,802	258,618,812
18,798,187	37,322,080
8,642,134	9,692,236
27,440,321	47,014,316
18,570,204	18,556,651
3,016,905	6,562,087
10,688,075	12,342,266
2,156,772	1,904,031
1,835,996	-
32,974,700	29,945,728
2,549,370	2,429,671
6,246,761	4,004,581
78,038,783	75,745,015
26,101,515	27,253,052
9,819,504	10,201,306
5,681,886	6,738,406
-	-
28,676,667	26,333,476
70,279,572	70,526,240
$ 458,645,478	$ 451,904,383
$ 32,290,242	$ 35,069,167
2,944,907	2,906,670
5,422,939	6,251,421
3,879,917	1,788,485
-	10,000,000
5,470,000	4,694,000
50,008,005	60,709,743
242,392,728	240,986,746
-	-
3,575,534	3,401,613
295,976,267	305,098,102
91,904,597	86,705,392
2,568,682	3,486,077
8,642,134	9,692,236
59,553,798	46,922,576
162,669,211	146,806,281
$ 458,645,478	$ 451,904,383

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

Eugene Water & Electric Board

Electric and Water Systems

Statements of Revenues, Expenses and Changes in Fund Net Assets

for the years ended December 31, 2003 and 2002

	Electric System		Water System	
	2003	2002	2003	2002
Residential	$ 65,572,237	$ 67,100,323	$ 7,744,121	$ 7,580,044
Commercial and industrial	87,652,063	85,769,780	6,654,150	6,532,267
Sales for resale and other	82,491,408	56,219,213	581,192	586,456
Operating Revenues	235,715,708	209,089,316	14,979,463	14,698,767
Purchased power	139,466,737	114,980,897	-	-
System control	3,775,859	3,766,841	-	-
Wheeling	13,011,389	9,797,407	-	-
Steam and hydraulic generation	9,674,398	8,916,856	-	-
Transmission and distribution	11,095,746	12,349,585	4,137,644	3,774,133
Source of supply, pumping and purification	-	-	2,419,349	2,124,663
Customer accounting	6,190,618	6,879,265	882,607	954,683
Conservation expenses	1,410,185	1,670,394	539,963	453,429
Administrative and general	12,838,658	11,991,106	2,620,362	2,188,342
Depreciation on utility plant	10,089,090	12,280,945	2,227,293	2,694,104
Operating Expenses	207,552,680	182,633,296	12,827,218	12,189,354
Net Operating Income	28,163,028	26,456,020	2,152,245	2,509,413
Interest earnings on investments	2,054,890	3,059,509	333,090	505,292
Allowance for funds used during construction	258,786	177,869	244,000	87,148
Other revenue	2,941,604	3,289,730	2,074,692	1,829,483
Other Revenues	5,255,280	6,527,108	2,651,782	2,421,923
Contributions in lieu of taxes	9,866,496	10,830,781	-	-
Other revenue deductions	4,654,375	2,550,563	8,598	2,263
Interest expense and related amortization	10,529,883	11,048,562	1,902,377	1,705,044
Allowance for borrowed funds used during construction	(470,675)	(352,500)	(196,180)	(81,386)
Other Expenses	24,580,079	24,077,406	1,714,795	1,625,921
Income Before Contributed Capital	8,838,229	8,905,722	3,089,232	3,305,415
Contributed capital	2,411,697	1,884,884	1,523,772	924,985
Change in net assets	11,249,926	10,790,606	4,613,004	4,230,400
Total net assets at beginning of year	108,845,252	98,054,646	37,961,029	33,730,629
Total Net Assets at End of Year	$ 120,095,178	$ 108,845,252	$ 42,574,033	$ 37,961,029

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

Total Systems	
2003	2002
$ 73,316,358	$ 74,680,367
94,306,213	92,302,047
83,072,600	56,805,669
250,695,171	223,788,083
139,466,737	114,980,897
3,775,859	3,766,841
13,011,389	9,797,407
9,674,398	8,916,856
15,233,390	16,123,718
2,419,349	2,124,663
7,073,225	7,833,948
1,950,148	2,123,823
15,459,020	14,179,448
12,316,383	14,975,049
220,379,898	194,822,650
30,315,273	28,965,433
2,387,980	3,564,801
502,786	265,017
5,016,296	5,119,213
7,907,062	8,949,031
9,866,496	10,830,781
4,662,973	2,552,826
12,432,260	12,753,606
(666,855)	(433,886)
26,294,874	25,703,327
11,927,461	12,211,137
3,935,469	2,809,869
15,862,930	15,021,006
146,806,281	131,785,275
$ 162,669,211	$ 146,806,281

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

Eugene Water & Electric Board

Electric and Water Systems

Statements of Cash Flows

for the years ended December 31, 2003 and 2002

	Electric System	
	2003	2002
Cash flows from operating activities		
Receipts from customers	$ 234,176,139	$ 196,294,620
Grant proceeds	24,863	1,095,090
Lease prepayment received from Water	-	1,984,486
Other receipts	2,816,747	1,782,422
Power purchases	(145,549,016)	(117,946,080)
Payments to suppliers	(35,121,341)	(28,733,808)
Payments to employees	(22,968,977)	(23,589,195)
Contribution in lieu of taxes	(9,672,283)	(11,097,858)
Net Cash Provided by Operating Activities	23,706,132	19,789,677
Cash flows from investing activities		
(Increase) decrease in short-term investments	3,545,183	(5,028,544)
(Increase) decrease in restricted cash investments	19,421,798	22,003,517
(Increase) decrease in designated cash and investments	(1,427,695)	1,177,631
Interest earnings on investments	1,932,867	3,059,509
Distribution from equity investment in WGA	345,010	905,617
Net Cash Provided by (Used in) Investing Activities	23,817,163	22,117,730
Cash flows from non-capital financing activities		
Note receipts from Water	230,308	161,215
Proceeds from issuance of commercial paper	-	5,000,000
Commercial paper payments	(10,000,000)	(20,000,000)
Net Cash Used in Non-Capital Financing Activities	(9,769,692)	(14,838,785)
Cash flows from capital and related financing activities		
Proceeds from bonds	43,710,731	35,675,000
Bond principal payments	(40,529,000)	(16,121,000)
Additions to utility plant	(28,139,865)	(24,475,748)
Interest payments - Net of related amortizations	(11,878,017)	(8,470,217)
Conservation receipts from BPA	2,452,800	-
Additions to conservation assets and other	(6,679,761)	(7,998,345)
Contributed capital	2,411,697	1,884,884
Net Cash Used in Capital and Related Financing Activities	(38,651,415)	(19,505,426)
Net Increase (Decrease) in Cash and Cash Equivalents	(897,812)	7,563,196
Cash and cash equivalents at beginning of year	17,073,092	9,509,896
Cash and Cash Equivalents at End of Year	$ 16,175,280	$ 17,073,092
Reconciliation of Operating Revenue to Net Cash provided by operating activities		
Net operating revenue	$ 28,163,028	$ 26,456,020
Adjustments to reconcile net operating revenue to net cash provided by operating activities		
Depreciation	10,036,535	10,897,721
Contributions in lieu of taxes	(9,672,283)	(10,830,781)
Other revenue	3,026,401	3,289,730
Equity (income) loss from WGA	36,792	(205,244)
(Increase) decrease in assets		
Receivables	(2,379,592)	(3,323,574)
Materials and supplies	(15,206)	65,951
Prepayments and special deposits	(2,241,234)	(1,825,086)
Conservation loans, net	334,651	(64,579)
Prepaid retirement obligation	921,229	990,323
Deferred charges	(2,050,291)	(32,024)
Increase (decrease) in liabilities		
Accounts payable, accrued payroll and benefits	(3,992,519)	2,399,013
Deferred credits and other	1,538,621	(8,027,793)
Net Cash Provided by Operating Activities	$ 23,706,132	$ 19,789,677

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

Water System 2003	Water System 2002	Total Systems 2003	Total Systems 2002
$ 15,065,730	$ 14,511,707	$ 249,241,869	$ 210,806,327
1,309	42,806	26,172	1,137,896
-	(1,984,486)		
2,071,652	1,805,533	4,888,399	3,587,955
-	-	(145,549,016)	(117,946,080)
(2,897,825)	(6,688,584)	(38,019,166)	(35,422,392)
(5,734,586)	(5,153,415)	(28,703,563)	(28,742,610)
-	-	(9,672,283)	(11,097,858)
8,506,280	2,533,561	32,212,412	22,323,238
-	2,687,004	3,545,183	(2,341,540)
152,196	(2,417,332)	19,573,994	19,586,185
993,149	(2,888,788)	(434,546)	(1,711,157)
333,090	505,292	2,265,957	3,564,801
-	-	345,010	905,617
1,478,435	(2,113,824)	25,295,598	20,003,906
(230,308)	(161,215)	-	-
-	-	-	5,000,000
-	-	(10,000,000)	(20,000,000)
(230,308)	(161,215)	(10,000,000)	(15,000,000)
-	10,000,000	43,710,731	45,675,000
(790,000)	(760,000)	(41,319,000)	(16,881,000)
(7,787,062)	(13,884,125)	(35,926,927)	(38,359,873)
(1,781,154)	(1,453,394)	(13,659,171)	(9,923,611)
-	-	2,452,800	-
(8,598)	(2,263)	(6,688,359)	(8,000,608)
1,523,772	924,985	3,935,469	2,809,869
(8,843,042)	(5,174,797)	(47,494,457)	(24,680,223)
911,365	(4,916,275)	13,553	2,646,921
1,483,559	6,399,834	18,556,651	15,909,730
$ 2,394,924	$ 1,483,559	$ 18,570,204	$ 18,556,651
$ 2,152,245	$ 2,509,413	$ 30,315,273	$ 28,965,433
2,245,977	3,258,881	12,282,512	14,156,602
-	-	(9,672,283)	(10,830,781)
2,074,692	1,829,483	5,101,093	5,119,213
-	-	36,792	(205,244)
84,536	(168,204)	(2,295,056)	(3,491,778)
(104,496)	24,046	(119,702)	89,997
197,505	(1,783,020)	(2,043,729)	(3,608,106)
(12,047)	(3,929)	322,604	(68,508)
230,308	161,216	1,151,537	1,151,539
75,047	(46,803)	(1,975,244)	(78,827)
1,504,736	(3,220,527)	(2,487,783)	(821,514)
57,777	(26,995)	1,596,398	(8,054,788)
$ 8,506,280	$ 2,533,561	$ 32,212,412	$ 22,323,238

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

Eugene Water & Electric Board

Notes to Basic Financial Statements

Reporting Entity:

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

The Board provides energy and water service primarily to residential, commercial and industrial customers located in a 238 square mile area, including the City of Eugene and adjacent suburban areas. The Board has the authority to fix rates and charges. In order to secure power resources, the Board has taken ownership of various generation facilities. In addition, the Board has entered into joint ventures, whereby it has taken or anticipates taking 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, flow levels, licensing agreements and weather patterns.

The Board is subject to various forms of regulation under federal, state and local laws and is subject to various Federal Energy Regulatory Commission regulations. Laws and regulations are subject to change and may have a direct impact on the operations of the Board.

The Bonneville Power Administration (BPA) acts as a power wholesaler, and the Board is committed to purchase minimum amounts of power from BPA under various forms of net billing agreements.

<u>Summary of Significant Accounting Policies</u>:

Method of Accounting – The Board maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds. The Board has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the Board has elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Financial Reporting Model – The Board adopted GASB's new financial reporting model in accordance with the provisions of GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, as of January 1, 2002. This model establishes new requirements for the basic financial statements and requires the presentation of supplementary information, consisting primarily of Management Discussion and Analysis. The new model sets forth revised financial statement presentations and classifications and requires the statement of cash flows be prepared using the direct method.

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 prior year amounts have been reclassified to conform to current year presentation. Such reclassifications do not affect results of operations as previously reported.

Cash and Cash Equivalents – For purposes of the Statements of Cash Flows, the Board considers all highly liquid investments (other than restricted and designated assets) with original maturities of three months or less when purchased to be cash equivalents.

Operating Revenue – Operating revenue is recorded on the basis of service delivered. Utility revenues are derived primarily from the sale and transmission of electricity. Utility revenue from power sales and transmission is recognized when the power is delivered to and received by the customer. Estimated revenues are accrued for power deliveries not yet billed to customers from meter reading dates prior to month end (unbilled revenue) and are reversed the following month when actual billings occur. The credit practices of the Board require an evaluation of each new customer's credit worthiness on a case-by-case basis. At the discretion of management, a deposit may be obtained from the customer. Concentrations of credit risk with respect to receivables for residential customers are limited due to the large number of customers comprising the Board's customer base. Credit losses have been within management's expectations. Similar to its evaluation of residential, commercial and

<u>Summary of Significant Accounting Policies</u>, Continued:

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 customers.

Approximately 15.3% of 2003 and 14.5% of 2002 Electric System's retail revenues, primarily residential, commercial and industrial, were the result of sales to two industrial customers. Approximately 3.5% of 2003 and 3.4% of 2002 Water System's operating revenues were the result of sales to one industrial customer.

Power Risk Management – The Board's Power Risk Management Guidelines set forth policies, limits and control systems governing power purchasing and sales activities for the Electric System. The objectives of such policies are to maximize benefits to customers from wholesale activities while minimizing the risk that wholesale activities will adversely affect retail prices. The Board does not enter into contracts for trading purposes.

In accordance with the policy guidelines, the Board enters into forward purchase and sales contracts for power. Certain of these contracts contain options to enable the Board to hedge its forward positions and minimize the adverse effects of market volatility in the future. The contracts with such embedded options are considered derivative instruments under the provisions of FASB No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. FASB No. 133 requires that an entity recognize derivatives as assets or liabilities on its balance sheet and measure those instruments at fair value, on a mark-to-market basis. At December 31, 2003, net unrealized losses from derivative instruments aggregate $3,529,253 ($1,788,485 at December 31, 2002) for the Electric System. The notional amounts under such contracts totaled $27,091,812 and the contracts extend through 2005.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends financial accounting and reporting for derivatives instruments, including the treatment for certain forward power sales and purchase contracts. SFAS No. 149 is effective for new contracts transacted after July 1, 2003. The normal purchase and sales exception previously allowed for bookout transactions was effectively eliminated by SFAS No. 149. However, under SFAS No. 149, the Board expects to qualify bookout transactions for the normal purchase and normal sale exception unless certain criteria are not met. As of December 31, 2003, the impact of the adoption of SFAS No. 149 resulted in reporting unrealized losses from derivative instruments aggregate $350,664. The notional amount under such contracts totaled $20,998,873, and the contracts extend through 2006.

Summary of Significant Accounting Policies, Continued:

The Board reports unrealized gains and losses from its mark-to-market valuations as derivative assets or liabilities on its Balance Sheets. Such unrealized gains and losses are subject to regulatory deferral because they will be recoverable in rates when the forward contracts are executed in the future and, accordingly, are recognized as deferred charges or credits until realized upon execution of the related contracts.

The Board's other forward contracts do not contain embedded options and qualify as normal purchases and sales under FASB No. 133 and FASB No. 149. Accordingly, the Board does not mark such contracts to market or recognize unrealized gains and losses. These contracts extend through 2006, and have aggregate notional amounts totaling $18,776,300 ($45,254,000 at December 31, 2002).

Deferred Charges – The Board has costs to be charged to future periods as allowed by FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, which follows the premise that a utility should recognize expenses at the time when the ratemaking process authorizes them to be recovered with related revenues.

Conservation Assets – The Electric System defers substantially all of its costs associated with demand-side programs. Any reimbursements are credited (or netted) against the "conservation assets" and the net amount (asset) is amortized over five years. The net balance of conservation assets (costs less reimbursements, less amortization) at December 31, 2003 is $17,335,100 ($17,199,900 at December 31, 2002). Amortization expense of $4,036,600 in 2003 ($2,410,500 in 2002) is included in other revenue deductions.

Deferred Charges on Long-term Debt – The Board has recorded deferred charges for certain bond issuance costs, which are being amortized over the life of the respective issue. The Electric System had an aggregate deferral of $3,082,100 at December 31, 2003 ($2,646,100 at December 31, 2002), and recorded $252,000 as amortization expense in 2003 ($189,700 in 2002). The Water System had an aggregate deferral of $565,600 at December 31, 2003 ($614,800 at December 31, 2002), and $49,100 was expensed in 2003 ($40,300 in 2002).

Sick Pay – The Board has recorded deferred charges for the future payment of sick leave expense of $1,230,800 at December 31, 2003 ($1,272,100 at December 31, 2002).

Other Deferred Charges – The Board has deferred certain costs associated with its investigation of several projects which it believes will be viable in the future, including deferred preliminary surveys of $753,900 at December 31, 2003 ($708,500 at December 31, 2002) and an aggregate Derivative asset (see Power Risk Management) of $3,880,000 at December 31, 2003 ($1,788,500 at December 31, 2002).

Summary of Significant Accounting Policies, Continued:

Utility Plant and Depreciation – Utility plant is stated at original cost. Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e., interest) used during construction. The cost of additions, renewals and betterments is capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property and removal cost, less salvage, is charged to accumulated depreciation when property is retired. Included in the Board's construction work-in-progress balance are costs associated with obtaining or renewing licensing agreements, as well as meeting other regulatory requirements. Once the new or renewed licensing agreements are obtained, the Board transfers those costs to its depreciable utility plant to be depreciated over the estimated useful lives of the plant components.

Depreciation is computed using straight-line composite rates, which are equivalent to approximately 2.3% of the Electric System and Water System original costs of depreciable utility plant.

Asset Retirement Obligations – Effective January 1, 2003, the Board adopted Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires the recognition of an Asset Retirement Obligation ("ARO") for legal obligations associated with the retirement of tangible long-lived assets, including the recording of fair value of the liability, if reasonably estimable, for an ARO in the period in which it is incurred. The ARO liability is recorded as a capitalized cost increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. In the Board's judgment, it does not have any material legal obligations associated with the retirement of its tangible long-lived assets, except for certain assets with indefinite system lives for which the Company cannot estimate the ARO because the settlement date is indeterminable. The adoption of SFAS No. 143 did not have a material impact on the Board's financial condition or results of operations.

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, consistent with GASB Statement No. 23, and reported as a component of the new debt liability on the Balance Sheet.

Environmental Expenses – Environmental expenses are expensed or capitalized depending upon their future economic benefits. Liabilities for such expenses are recorded when it is probable that obligations have been incurred and the costs can be reasonably estimated.

Net Assets – Net assets consist primarily of cumulative operating revenues collected for (a) payment of utility plant additions or principal amortization of debt incurred for plant additions, in advance of net accumulated depreciation recognized on such plant, and (b) interest income earned on investments. It is the Board's intention to set rates at a level to continue replacing and improving net plant.

Summary of Significant Accounting Policies, Continued:

Fair Value of Financial Instruments – The carrying amounts of current assets, including restricted cash and investments, and current liabilities approximate fair value due to the short 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.

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 –

Construction Funds – Used to account for legally restricted cash and investments for the purpose of construction of capital projects.

Investments for Debt Service – Used to account for cash and investments, which the Board has designated for future payment of principal and interest on debt.

Designated Cash and Investments –

Capital Improvement Fund – Used to account for cash and investments, which the Board has designated for capital improvements.

Operating Fund – Used to account for cash and investments, which the Board has designated for payment of operating costs and self-insured retention claims to maintain balances in the general account within target levels.

Pension and Medical Reserve Fund – Used to account for cash and investments that the Board has designated for pension and postretirement medical costs.

Deposits with financial institutions are comprised of bank demand deposits and savings accounts. The total bank balance, as recorded in the bank records at December 31, 2003, is $1,398,564. Of the bank balance, $100,000 was covered by federal depository insurance, and $1,298,564 was collateralized with securities held by the pledging financial institution but not in the Board's name. At December 31, 2003, the Board held $35,000,000 in collateral certificates.

The Board's investments during the year, which included obligations of the U.S. Government, are authorized by State Statutes and bond resolutions. The Board's investments are categorized to give an indication of the level of risk assumed by the Board at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department

<u>Cash and Investments</u>, Continued:

or agent in the Board's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent, but not in the Board's name. The Board's investments are held in safekeeping in book entry form by the financial institution counterparty and are considered to be Category 3 investments under the above criteria. The Board's investment in the State of Oregon Local Government Investment Pool ("LGIP") is not required to be categorized by level or risk because this investment is not evidenced by securities.

Investments, except for the investment in LGIP, are carried at fair value as allowed by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, using quoted market prices in 2003 and 2002. Also, as allowed by GASB Statement No. 31, the investment in LGIP is carried at amortized cost, which approximates fair value at December 31, 2003 and 2002.

The Board places its investments with financial institutions and limits the amount of credit exposure with any one financial institution. The Board actively evaluates the credit worthiness of the financial institutions with which it invests.

Cash and investments consist of the following at December 31:

	2003				
	Restricted Cash and Investments	Cash and Cash Equivalents	Short-term Investments	Designated funds	Total Carrying Amount
Electric System					
Cash on hand		$ 11,800			$ 11,800
Investments - Direct obligations of U.S. Government	$ 9,589,588		$ 3,016,905		12,606,493
Investments in the State of Oregon Local Government Investment Pool	8,082,497	16,163,480		$ 2,293,312	26,539,289
Total Electric System	17,672,085	16,175,280	3,016,905	2,293,312	39,157,582
Water System					
Investments - Direct obligations of U.S. Government	8,577,306			7,729,448	16,306,754
Investment in the State of Oregon Local Government Investment Pool	1,190,930	2,394,924		4,658,083	8,243,937
Total Water System	9,768,236	2,394,924		12,387,531	24,550,691
Total	$ 27,440,321	$ 18,570,204	$ 3,016,905	$ 14,680,843	$ 63,708,273

Cash and Investments, Continued:

	2002				
	Restricted Cash and Investments	Cash and Cash Equivalents	Short-term Investments	Designated funds	Total Carrying Amount
Electric System					
Cash on hand		$ 11,800			$ 11,800
Investments - Direct obligations of U.S. Government	$ 26,874,285		$ 6,562,087		33,436,372
Investments in the State of Oregon Local Government Investment Pool	10,219,598	17,061,292		$ 865,617	28,146,507
Total Electric System	37,093,883	17,073,092	6,562,087	865,617	61,594,679
Water System					
Cash in bank demand deposits		582,452			582,452
Investments - Direct obligations of U.S. Government	8,879,022			8,777,835	17,656,857
Investment in the State of Oregon Local Government Investment Pool	1,041,411	901,107		4,602,845	6,545,363
Total Water System	9,920,433	1,483,559		13,380,680	24,784,672
Total	$ 47,014,316	$ 18,556,651	$ 6,562,087	$ 14,246,297	$ 86,379,351

Electric Utility Plant:

The major classifications and depreciable lives of plant in service at December 31 are as follows:

	Depreciable Life-Years	Balance at December 31, 2002	Increases	Decreases	Balance at December 31, 2003
Land	-	$ 6,386,325	$ 77,792	$ (435,772)	$ 6,028,345
Steam production	10-25	21,071,578	487,927		21,559,505
Hydro production	36-50	95,946,473	23,414,244		119,360,717
Wind production	25	13,087,182			13,087,182
Transmission	33.3-50	51,246,795	584,604	(140,024)	51,691,375
Distribution	28.5	146,328,669	6,716,266		153,044,935
General plant	3-50	64,468,016	796,124	(163,761)	65,100,379
Total plant in service		398,535,038	32,076,957	(739,557)	429,872,438
Accumulated depreciation		(224,353,862)	(10,471,755)	435,220	(234,390,397)
Property held for future use		627,477	112,166	(214)	739,429
Construction work in progress		38,107,039	27,716,842	(30,589,953)	35,233,928
Net Utility Plant		$ 212,915,692	$ 49,434,210	$ (30,894,504)	$ 231,455,398

Water Utility Plant:

	Depreciable Life-Years	Balance at December 31, 2002	Increases	Decreases	Balance at December 31, 2003
Land	-	$ 520,962	$ 6,949		$ 527,911
Structure	50	9,449,151	12,553,321		22,002,472
Pumping	20	5,765,016	136,629		5,901,645
Purification	25	1,128,628	7		1,128,635
Transmission	28.5	17,196,188			17,196,188
Reservoirs	50	8,296,452	2,601,031		10,897,483
Distribution	28.5	25,879,995	1,958,800		27,838,795
Services, meters & hydrants	20-28.5	6,328,224	778,378		7,106,602
General plant	3-10	4,222,602	436,244	$ (279,771)	4,379,075
Total plant in service		78,787,218	18,471,359	(279,771)	96,978,806
Accumulated depreciation		(56,417,292)	(2,287,340)	41,363	(58,663,269)
Property held for future use		1,070,956		(58,350)	1,012,606
Construction work in progress		22,262,238	7,742,484	(17,901,461)	12,103,261
Net Utility Plant		$ 45,703,120	$ 23,926,503	$ (18,198,219)	$ 51,431,404

Investment in Western Generation Agency:

The Board is a party to an Intergovernmental Agency Agreement, whereby 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 $15,100,000, 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. During 2003, distributions totaling $345,010 were received, of which $345,010 was a preferred equity distribution. The repayment of the entire equity investment is contingent upon the successful operation of the Project and 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, 2003, the Board has recorded a receivable in the amount of $598,641 ($612,226 at December 31, 2002) for the preferred dividend, which is included in other revenue.

The balance of the investment in Western Generation Agency as of December 31, 2003 was $9,819,504 and has been decreased by the equity distributions described above and by the Board's 50% share of Agency's 2003 net loss, or $36,793. 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 the 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, BNY Western Trust Company.

Long-term Debt:

Long-term portion of bonds payable at December 31:

	2003	2002
Electric Utility System Revenue and Refunding Bonds		
1988 Series M, 4-5-88 issue, 6.80%, capital		
appreciation, due 2004		$ 170,000
Term Bonds, 6.00%, due 2011		
1994 Series, 1-31-94 issue		
Serial Bonds, 4.20-4.75%, refunded 2003		5,645,000
Term Bonds, 4.75-5.00%, refunded 2003		15,980,000
1996 Series, 12-1-96 issue		
Serial Bonds, 4.70-5.375%, due 2004-2013	$ 9,815,000	10,665,000
Term Bonds, 5.60%, due 2014-2016	4,425,000	4,425,000
1997 Series, 10-1-97 issue, 4.40-5.00%, due 2004-2011	8,630,000	9,125,000
1998 Series, 2-1-98 issue		
Serial Bonds, 4.25-4.85%, due 2005-2015	9,710,000	9,710,000
Term Bonds, 5.00-5.05%, due 2016-2022	23,875,000	23,875,000
1998 Series A, 11-15-98 issue		
Serial Bonds, 5.66-5.97%, due 2004-2009	1,780,000	2,080,000
Term Bonds, 6.22-6.85%, due 2010-2023	9,165,000	9,165,000
1998 Series B, 11-15-98 issue		
Serial Bonds, 4.00-4.90%, refunded 2003		6,520,000
Term Bonds, 5.00%, refunded 2003		8,480,000
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2005-2022	25,930,000	25,930,000
Capital appreciation, 7.13-7.20%, due 2023-2027	4,067,556	4,067,556
2001 Series B, 11-15-01 issue		
Serial Bonds, 4.00-5.25%, due 2005-2022	20,245,000	20,245,000
Term Bonds, 5.00%, due 2023-2031	19,140,000	19,140,000
2002 Series A, 5-7-02 issue		
5.25%, due 2004-2011	10,010,000	11,170,000
2002 Series B, 6-1-02 issue		
3.5-5.96%, due 2004-2012	9,990,000	11,000,000
2002 Series C, 6-1-02 issue		
2.4-5.0%, due 2004-2022	11,885,000	12,340,000
2003 Series, 6-10-03 issue		
2.0-5.0%, due 2004-2022	40,660,000	
	209,327,556	209,732,556
Add unamortized premium	3,461,927	922,527
Less unamortized refunding costs	(2,298,657)	(2,226,866)
Less unamortized discount	(996,227)	(1,098,975)
Electric System Bonds Payable	$ 209,494,599	$ 207,329,242

Long-term Debt, Continued:

	2003	2002
Water Utility System Revenue and Refunding Bonds		
1997 Series, 10-1-97 issue, 4.45-4.55%, due 2004-2006	$ 1,765,000	$ 2,590,000
2000 Series, 6-1-00 issue, 5.20-5.875%, due 2007-2030	21,405,000	21,405,000
2002 series, 8-1-02 issue, 2.75-4.7%, due 2007-2022	10,000,000	10,000,000
Note payable - Electric		
11-15-01 issue, 6.32-7.20%, due 2004-2027	5,450,610	3,976,643
	38,620,610	37,971,643
Less unamortized discount	(201,141)	(215,153)
Less unamortized refunding costs	(70,730)	(122,343)
Water System Bonds Payable	38,348,739	37,634,147
Total Long-term Portion of Debt	247,843,338	244,963,389
Less Inter system payable	5,450,610	3,976,643
Total Long-term Debt per Balance Sheets	$ 242,392,728	$ 240,986,746

	December 31, 2003 Current and Long Term		**December 31, 2002 Current and Long Term**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Electric System	$ 214,139,599	$ 251,872,058	$ 211,233,242	$ 261,404,592
Water System	33,723,129	47,098,185	34,447,504	38,318,144
Total Bonds Payable	$ 247,862,728	$ 298,970,243	$ 245,680,746	$ 299,722,736

Total principal requirements reflective of the foregoing bonds, during the years 2004 through 2008 and thereafter, are as follows:

	Electric System	**Water System**	**Total Systems**
2004	$ 4,645,000	$ 825,000	$ 5,470,000
2005	6,145,000	860,000	7,005,000
2006	7,535,000	905,000	8,440,000
2007	8,710,000	910,000	9,620,000
2008	9,310,000	940,000	10,250,000
Thereafter	177,627,556	29,555,000	207,182,556
	$ 213,972,556	$ 33,995,000	$ 247,967,556

Long-term Debt, Continued:

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply.

The Board entered, but not drawn, on a nonrevolving demand line of credit on December 23, 2003 with an combination of prime and the LIBOR interest rate for a maximum of $30 million. The Board's previous $60,000,000 line of credit expired October 31, 2003 with no balance outstanding.

In June 2003, the Board issued $40,865,000 in Electric Utility Revenue and Refunding Bonds with interest rates from 2.0% to 5.0%, to advance refund the 1994 Series Bonds and the 1998B Series Bonds and for capital improvements in the Electric System. The Board deposited $2,300,000 in escrow from the issuance of the 1998B bonds to reduce the amount of the 2003 refunding.

Although the refunding resulted in an accounting loss of $384,700 to be amortized over the life of the defeased bond issues, the Board reduced its aggregate debt service payments by $5,016,300 over the next 20 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $2,431,500.

As of December 31, 2003, the amount of defeased debt still outstanding but removed from the Board's long-term debt amounted to $31,500,000 for the Electric System Distribution Division.

During May 2002, the Board issued $12,265,000 in Electric Utility Refunding Bonds, with interest rates from 5.00% to 5.25%, to advance refund $13,515,000 of the 1992 Refunding Bonds. The Board also issued $11,000,000 in Electric Utility Revenue Bonds, with interest rates from 3.50% to 5.96% in June of 2002. In addition, the Board issued in June another $12,410,000 in Electric Utility Revenue and Refunding Bonds, to defease certain maturities of outstanding bonds and for capital improvements in the Electric System with interest rates from 2.00% to 5.00%. The Board issued $10,000,000 in Water Utility System Revenue Bonds in August of 2002 with interest rates of 2.75% to 4.70%.

Long-term Debt, Continued:

Long-term debt activity for the year is as follows:

	Outstanding January 1, 2003	Issued During Year	Matured During Year	Outstanding December 31, 2003
Electric Revenue Bonds, with interest rates from 3.90% to 6.70%, maturing through 2031 (original issue $190,230,000)	$ 114,039,000		$ (38,109,000)	$ 75,930,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue $127,190,000)	69,405,000	$ 40,865,000	(2,420,000)	107,850,000
Electric Revenue Current Interest Bonds, with interest rate of 6.23%, maturing through 2027 (original issue $29,997,556)	30,192,556			30,192,556
Total Electric System	213,636,556	40,865,000	(40,529,000)	213,972,556
Water Revenue Refunding Bonds, with interst rates from 4.45% to 4.55%, maturing through 2006 (original issue $6,615,000)	3,380,000		(790,000)	2,590,000
Water Revenue Bonds, with interest rates from 2.75% to 5.875%, maturing through 2030 (original issue $31,405,000)	31,405,000			31,405,000
Total Water System	34,785,000	-	(790,000)	33,995,000
Total Bonded Debt	$ 248,421,556	$ 40,865,000	$ (41,319,000)	$ 247,967,556

Long-term Debt, Continued:

	Outstanding January 1, 2002	Issued During Year	Matured During Year	Outstanding December 31, 2002
Electric Revenue Bonds, with interest rates from 3.90% to 6.70%, maturing through 2031 (original issue $190,230,000)	$ 105,785,000	$ 11,000,000	$ (2,746,000)	$ 114,039,000
Electric Revenue Refunding Bonds, with interest rates from 4.20% to 6.00%, maturing through 2022 (original issue $86,325,000)	58,105,000	24,675,000	(13,375,000)	69,405,000
Electric Revenue Current Interest Bonds, with interest rate of 6.23%, maturing through 2027 (original issue $29,997,556)	30,192,556			30,192,556
Total Electric System	194,082,556	35,675,000	(16,121,000)	213,636,556
Water Revenue Refunding Bonds, with interest rates from 4.35% to 4.55%, maturing through 2006 (original issue $6,615,000)	4,140,000		(760,000)	3,380,000
Water Revenue Bonds, with interest rates from 2.75% to 5.875%, maturing through 2030 (original issue $31,405,000)	21,405,000	10,000,000		31,405,000
Total Water System	25,545,000	10,000,000	(760,000)	34,785,000
Total Bonded Debt	$ 219,627,556	$ 45,675,000	$ (16,881,000)	$ 248,421,556

Power Supply Resources:

The Board maintains purchase power agreements with BPA and various other regional utilities. These agreements began expiring during 2001 and will continue through 2011 and may be renewed at the Board's option, prior to expiration. A significant portion of the power received from BPA is provided under the "Slice" contract. The Slice contract provides for certain periodic adjustments and true-ups based on actual BPA costs. All BPA assessed true-ups have been fully accrued for 2003; however, certain of these costs are subject to refund by BPA upon certain findings.

During 2003, the Board purchased approximately 54% of its power requirements from BPA, approximately 35% from sources other than BPA, and generated approximately 11% (62%, 25% and 13%, respectively, in 2002).

<u>Retirement Benefits</u>:

Plan Description – The Board's pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to members or their beneficiaries. The Board is a participating employer in the Oregon Public Employees Retirement System ("OPERS") and Oregon Public Service Retirement Plan ("OPSRP"). The OPERS Board administers both plans, which are established under Oregon Revised Statutes and acts as a common investment and administrative agent for public employers in the State of Oregon.

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

Funding Policy – OPERS reissued employer rates in July of 2003 for the 2001 actuarial valuation based on the changes to the pension plan during the 2003 Legislative session. The Board's new rate effective July 1, 2003 was 11.85%. However, a subsequent estimate by the OPERS has the Board's unfunded actuarial liability estimated at $48 million, resulting in an 18.53% employer contribution rate. The OPERS is not expected to change employer contribution rates until after the 2003 actuarial valuation, which is expected to be completed in December 2004.

State 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 December 2001, the Board elected to make a lump-sum payment of approximately $29,600,000, which had the effect of lowering the employer contribution rate to 15.51%, beginning January 1, 2002. The lump sum payment is recorded as an other asset and is being amortized over the future funding periods (27 years). The amortization was $1,152,000 for 2003 ($1,152,000 for 2002).

Annual Pension Cost – Because all OPERS participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are 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 annual pension cost. For the year ended December 31, 2003, the Board's annual pension expense of $5,521,700, consisted of the employer portion of $3,877,600 and the annual required contribution of approximately $1,644,100 (an average for 2003 of 14% of covered payroll and 6%, respectively).

Retirement Benefits, Continued:

The Board's pension liability and the annual required contribution rate were determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The unfunded actuarial accrued liability is amortized as a level percentage of projected annual payroll on an open basis over a 26-year period. The actuarial assumptions include a rate of return on investment of present and future assets of 8.0% per year, projected salary increases of 4.25% (excluding merit and longevity increases), and cost-of-living adjustments of 2.0% per year for postretirement benefits. Investment return and projected salary increases include an inflation component of 3.5%.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12-31-01	$ 6,543,934	100%
12-31-02	6,275,661	100%
12-31-03	5,521,700	100%

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

Valuation Date	Value of Assets	Actuarial Liability	Unfunded Actuarial Liability (UAL)	Percent of Actuarial Liability Funded	Covered Payroll	UAL/ Payroll
12-31-97	$ 58,946,228	$ 117,633,500	$ 58,687,272	50%	$ 25,992,756	226%
12-31-99	172,684,683	227,670,647	54,985,964	76%	27,087,320	203%
12-31-01 *	197,488,997	200,216,724	2,772,727	99%	27,068,757	10%

* Revised, including 2003 legislative action.

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.

Retirement Benefits, Continued:

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

Annual Pension Cost – Employer contributions are calculated and made in conformity with the parameters of GASB No. 27. The Board's annual pension cost is based upon its latest actuarial report, dated January 1, 2003, with the next actuarial valuation for the year ended December 31, 2003 scheduled to be completed during 2004.

The Board's pension liability and the annual required contribution rate were determined as part of the January 1, 2003 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 7.0% per year, cost-of-living adjustments of 2.0% per year for postretirement benefits and 1983 Group Annuity Mortality rate.

The Board's annual pension cost and the change in net pension obligation related to the Supplemental Retirement Plan for the years ended December 31 is as follows:

	2002	2001
Annual recommended contribution	$ 498,139	$ 449,780
Interest on net pension obligation	84,418	56,244
Adjustment to annual recommended contribution	(155,409)	(103,542)
Annual pension cost	427,148	402,482
Net pension obligation, January 1	1,205,971	803,489
Net pension obligation, December 31	$ 1,633,119	$ 1,205,971

Retirement Benefits, Continued:

The following tables present ten-year trend information for the Board's Supplemental Retirement Plan:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
December 31, 2002	$ 427,148	0%	$ 1,633,119
December 31, 2001	402,482	0%	1,205,971
December 31, 2000	279,206	0%	803,489
December 31, 1999	230,684	0%	524,283
December 31, 1998	185,380	0%	293,599
December 31, 1997	124,262	298%	108,219
December 31, 1996	170,744	0%	353,915
December 31, 1995	164,879	0%	48,053
December 31, 1994	55,746	0%	(116,826)
December 31, 1993	34,516	0%	(172,573)

Schedule of funding progress for the Supplemental Retirement Plan:

Valuation as of January 1	Value of Assets	Actuarial Liability	Net Assets as a Percent of Actuarial Liability	Unfunded Actuarial Liability
2003	$ 112,539	$ 3,964,935	2.8%	$ 3,852,396
2001	1,205,282	4,364,349	27.6%	3,159,067
2000	1,779,711	3,744,652	47.5%	1,964,941
1999	2,338,480	3,915,855	59.7%	1,577,375
1998	2,820,291	4,045,721	69.7%	1,225,430
1997	3,031,313	3,945,632	76.8%	914,319
1996	3,062,183	4,086,586	74.9%	1,024,403
1995	3,047,208	4,278,873	71.2%	1,231,665
1994	3,738,503	4,352,591	85.9%	614,088

Postretirement Medical Benefit Plan – In addition to pension benefits, the Board provides postretirement health care and life insurance benefits to all employees who retire with at least 30 years of service or at age 55 with at least ten years of service. Currently, 370 retirees or surviving spouses of retired 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.

GASB No. 12, *Disclosure of Information of Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers*, discusses two methods for funding the above postretirement benefits. The method the Board continues to use is the "pay-as-you-go" method, resulting in recognized expenses in 2003 of approximately $2,006,000 for Electric System and $310,000 for the Water System ($1,611,000 and $283,000 in 2002, respectively).

Retirement Benefits, Continued:

The alternative method would accrue expenses as incurred and allow the Board to fund a portion of the future postemployment costs in advance on an actuarially determined basis. Under this method, the 2002 total expense, as determined by an actuarial study dated January 1, 2003, the date of the last valuation, for both the Electric System and Water System would have been approximately $3.9 million. The total actuarially determined health care liability for both systems as of January 1, 2003 was approximately $32.5 million. The unit credit funding method was used to compute the liability and assumes a 6% discount rate and a 13% annual rate of increase in the per capita cost of covered health care benefits for 2003. This rate is assumed to decrease gradually to 6% in the year 2017 and remain at that level thereafter. A 1% increase in the assumed health care cost trend could have a material effect on net postretirement health care costs.

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 balance sheet.

Trojan Nuclear Plant:

The Trojan Nuclear Plant ("Trojan") 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.

Prior to 1993, the Board had assigned to BPA and other public agency participants its 30% share of the output from the Trojan Nuclear Plant. The Board receives payments and credits (net billings) equal to its share of all Plant costs, including decommissioning and debt service notwithstanding the termination of Plant output.

Trojan Nuclear Plant, Continued:

During 1997, the Board reorganized the Electric System, such that the Trojan Project bonds are no longer supported by a rate pledge of the Electric System. As a result, the Trojan Nuclear Plant is not included in the financial statements. The exclusion of the Trojan Nuclear Plant financial information from the Board's financial statements has no effect on net revenue or accumulated net revenue as previously reported. The Trojan Nuclear Plant financial statements, as required under bond resolutions, can be obtained from the Eugene Water & Electric Board.

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 System. The closure and decommissioning of the Trojan Project could result in higher costs to BPA, which in turn could increase the Board's costs of purchased power from BPA under the Board's Slice contract with BPA (see Power Resources).

Commitments and Contingencies:

Water Projects – The Board had contractual commitments, primarily related to the acquisition and construction of a groundwater resource, of approximately \$840,000. The contracts will be fulfilled in 2004. Construction of the wells is expected to continue over the next three years.

Electric Re-licensing Projects – To meet the requirements of a renewed license to operate Leaburg and Walterville hydroelectric facilities, the Board is constructing improvements for these integrated facilities. Approximately \$10,100,000 is projected necessary to fulfill the license requirements through the year 2006, including approximately \$5,600,000 for contractual commitments in place December 31, 2003 to be fulfilled in 2004. The majority of the contractual commitments are for operational equipment at Leaburg. Compliance studies and other improvements for the overall site of Walterville and Leaburg are targeted for 2005 to 2006.

The Board is in the application process of renewing its license to operate its Carmen Smith hydroelectric facility. Contracts totaling \$4,000,000, executable by individual work orders, for environmental work and engineering are expected to continue into 2006. Contractual commitments for work orders outstanding at December 31, 2003 were approximately \$350,000.

Electric Conservation Programs – The Board has entered into a variety of conservation agreements with the Bonneville Power Administration, which are fulfilled primarily by the Board's installations of energy efficient improvements to its customers' homes, and the purchase of those energy savings by BPA. At December 31, 2003, under terms of the "Con

Commitments and Contingencies, Continued:

Aug" agreement, the Board was obligated to complete installations with a cumulative energy savings equal to 1.2 average megawatts of savings by March 31, 2004. The cost of the remaining installations is approximately $600,000.

Self-Insurance – The Board is exposed to various risks of loss due to self-insured risks retention relating to general liability claims. General liability claims are generally limited to $100,000 for property damage claims and $1,000,000 for all other claims, per occurrence.

Claims liabilities recorded in the basic financial statements are based on the estimated ultimate loss and reserves for claims incurred as of the balance sheet date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported ("IBNR") claims. At December 31, 2003, a total claims liability of approximately $294,000 ($131,100 at December 31, 2002) is reported in the basic financial statements. All prior and current-year claims are 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
2003	General liability	$ 131,162	$ 221,280	$ (58,482)	$ 293,960
2002	General liability	$ 87,344	$ 218,307	$ (174,489)	$ 131,162
2001	General liability	$ 547,605	$ (384,304)	$ (75,957)	$ 87,344

Claims and Other Legal Proceedings – The Board was a party to litigation in the case of *Puget Sound Energy, Inc. v All Jurisdictional Sellers of Energy and/or Capacity at Wholesale Into Electric Energy and/or Capacity Markets in the Pacific Northwest, Including Parties to the Western Systems Power Pool Agreement*. The litigation contended that various parties, including the Board, that bought and sold electric energy in the wholesale power markets of the Pacific Northwest during the California energy crisis charged unjust and/or unreasonable prices. Refund claims were asserted against the Board. The Board traded electricity in the Pacific Northwest wholesale market for the sole purpose of ensuring its customer's needs would be fulfilled at the best possible rates, since the Board's own generation and its contracts with BPA were insufficient to meet those needs. The Board contended that the prices it charged were neither unjust nor unreasonable, and further claimed that the Federal Energy Regulatory Commission ("FERC") did not have jurisdictional authority over a publicly owned utility such as the Board. On June 25, 2003, FERC issued its "Order Granting Rehearing, Denying Request to Withdraw Compliant and Terminating Proceeding" in which FERC terminated the litigation without ordering refunds from any parties. In addition, FERC concurred that it did not have regulatory jurisdiction over municipal utilities such as the Board. As of December 31, 2003, the litigation has been appealed to the United States Court of Appeals for the Ninth Circuit Court. The Board is unable to predict either the outcome of the appeal or estimate the potential liability in this proceeding.

Commitments and Contingencies, Continued:

The Board is involved in various other litigation. 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, 2003.

Environmental Matters – The Board is engaged in environmental investigation and remediation efforts in its ordinary course of business. In the opinion of management, the ultimate outcome of these matters will not have a material effect on the Board's financial position beyond amounts already accrued as of December 31, 2003.

SUPPLEMENTARY INFORMATION

ANALYSIS OF CERTAIN RESTRICTED
CASH AND INVESTMENTS FOR DEBT SERVICE

Eugene Water & Electric Board

Electric System

Analysis of Certain Restricted Cash and Investments For Debt Service

December 31, 2003

	Bond Funds			
	Interest Accounts	Principal Accounts	Construction Fund	Total All Funds
Ending Balance - December 31, 2002	$ 6,040,003	$ 2,567,312	$ 28,486,568	$ 37,093,883
Proceeds from bond issue			7,227,587	7,227,587
Deposits from general fund	9,097,237	3,167,565	69,807	12,334,609
Interest earnings	42,337	23,632	325,390	391,359
Other transfers	1,184,584			1,184,584
Receipts	10,324,158	3,191,197	7,622,784	21,138,139
Principal payments		3,239,000		3,239,000
Interest payments	10,147,492			10,147,492
Defeasance	602,524	582,060	2,300,000	3,484,584
Transfer to revenue fund			23,688,861	23,688,861
Disbursements	10,750,016	3,821,060	25,988,861	40,559,937
U.S. Government securities, at market	5,614,145	1,937,449	2,037,994	9,589,588
State of Oregon Local Government Investment Pool			8,082,497	8,082,497
Ending Balance - December 31, 2003	$ 5,614,145	$ 1,937,449	$ 10,120,491	$ 17,672,085

Reconciliation to Segregated Cash and Investments	
Bond funds from above	
Interest accounts	$ 5,614,145
Principal accounts	1,937,449
Total Investments for Debt Service	$ 7,551,594

Eugene Water & Electric Board

Water System

Analysis of Certain Restricted Cash and Investments For Debt Service

December 31, 2003

	Bond Funds		
	Debt Service Accounts	Construction Fund	Total All Funds
Ending Balance - December 31, 2002	$ 1,084,921	$ 8,835,512	$ 9,920,433
Proceeds from bond issue	2,568,248		2,568,248
Deposits from revenue fund	8,525	125,958	134,483
Receipts	2,576,773	125,958	2,702,731
Principal payments	790,000		790,000
Interest payments	1,781,154		1,781,154
Transfers		283,774	283,774
Disbursements	2,571,154	283,774	2,854,928
U.S. Government securities, at market	1,090,540	7,486,766	8,577,306
State of Oregon Local Government Investment Pool		1,190,930	1,190,930
Ending Balance - December 31, 2003	$ 1,090,540	$ 8,677,696	$ 9,768,236

LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS

Eugene Water & Electric Board

Electric System

Long-term Bonded Debt and Interest Payment Requirements, Including Current Portion

December 31, 2003

	Revenue Bonds Series M Capital Appreciation 4-5-88		Revenue Bonds 1996 Series 12-1-96		Refunding Revenue Bonds 1997 Series 11-4-97	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	$ 170,000	$ 336,365	$ 850,000	$ 796,555	$ 495,000	$ 429,005
2005			890,000	756,605	1,065,000	407,225
2006			930,000	713,885	1,115,000	359,833
2007			975,000	668,315	1,165,000	309,658
2008			1,025,000	619,565	1,225,000	256,650
2009			1,080,000	567,290	1,285,000	199,075
2010			1,135,000	511,130	1,355,000	137,395
2011			1,195,000	450,975	1,420,000	71,000
2012			1,260,000	386,744		
2013			1,325,000	319,019		
2014			1,395,000	247,800		
2015			1,475,000	169,680		
2016			1,555,000	87,080		
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
	170,000	336,365	15,090,000	6,294,643	9,125,000	2,169,841
Less current	170,000		850,000		495,000	
	$ -	$ 336,365	$ 14,240,000	$ 6,294,643	$ 8,630,000	$ 2,169,841

	Refunding Revenue Bonds 1998 Series 2-1-98		Revenue Bonds 1998 Series A 11-15-98		Revenue Bonds 2001A Series Current Interest 11-15-01	
	Principal	Interest	Principal	Interest	Principal	Interest
2004		$ 1,664,813	$ 300,000	$ 734,293		$ 1,638,776
2005	$ 55,000	1,664,813	315,000	717,313	$ 90,000	1,638,776
2006	345,000	1,662,475	335,000	699,327	180,000	1,633,088
2007	435,000	1,647,640	355,000	679,696	260,000	1,621,712
2008	540,000	1,625,455	375,000	658,857	390,000	1,605,280
2009	650,000	1,597,915	400,000	636,657	510,000	1,580,632
2010	770,000	1,568,655	420,000	612,777	645,000	1,548,400
2011	895,000	1,533,245	450,000	586,653	790,000	1,507,636
2012	1,035,000	1,491,180	475,000	558,663	950,000	1,457,708
2013	1,190,000	1,442,018	505,000	529,118	1,125,000	1,397,668
2014	1,765,000	1,384,898	535,000	497,707	1,310,000	1,326,568
2015	2,030,000	1,300,178	570,000	464,430	1,520,000	1,243,776
2016	2,315,000	1,201,723	610,000	425,385	1,745,000	1,147,712
2017	2,635,000	1,085,973	650,000	383,600	1,990,000	1,037,428
2018	2,980,000	954,223	695,000	339,075	2,255,000	911,660
2019	3,350,000	805,223	740,000	291,468	2,545,000	769,144
2020	3,750,000	636,048	795,000	240,778	2,860,000	608,300
2021	4,190,000	446,673	850,000	186,320	3,200,000	427,548
2022	4,655,000	235,070	905,000	128,095	3,565,000	225,308
2023			965,000	66,099	867,106	3,097,894
2024					839,611	3,305,389
2025					814,720	3,520,280
2026					789,579	3,740,421
2027					756,540	3,913,460
2028						
2029						
2030						
2031						
	33,585,000	23,948,218	11,245,000	9,436,311	29,997,556	40,904,564
Less current			300,000			
	$ 33,585,000	$ 23,948,218	$ 10,945,000	$ 9,436,311	$ 29,997,556	$ 40,904,564

Eugene Water & Electric Board

Electric System
Long-term Bonded Debt and Interest Payment Requirements, Including Current Portion, Continued
December 31, 2003

	Revenue Bonds 2001 B Series 11-15-01		Refunding Revenue Bonds 2002 A Series 5-7-02		Revenue Bonds 2002 B Series 5-22-02	
	Principal	Interest	Principal	Interest	Principal	Interest
2004		1,932,363	1,160,000	586,425	$ 1,010,000	575,873
2005	$ 760,000	1,932,363	1,210,000	525,525	1,045,000	540,523
2006	790,000	1,901,963	1,280,000	462,000	1,090,000	494,804
2007	820,000	1,870,363	1,350,000	394,800	1,145,000	441,666
2008	855,000	1,837,563	1,425,000	323,925	1,200,000	383,271
2009	890,000	1,803,363	1,500,000	249,113	1,265,000	320,871
2010	925,000	1,767,763	1,575,000	170,363	1,335,000	248,766
2011	960,000	1,730,763	1,670,000	87,675	1,415,000	171,336
2012	1,000,000	1,692,363			1,495,000	88,205
2013	1,040,000	1,652,363				
2014	1,095,000	1,597,763				
2015	1,155,000	1,540,275				
2016	1,215,000	1,479,638				
2017	1,275,000	1,415,850				
2018	1,345,000	1,348,913				
2019	1,415,000	1,278,300				
2020	1,490,000	1,204,013				
2021	1,565,000	1,125,788				
2022	1,650,000	1,043,625				
2023	1,735,000	957,000				
2024	1,825,000	870,250				
2025	1,915,000	779,000				
2026	2,010,000	683,250				
2027	2,110,000	582,750				
2028	2,215,000	477,250				
2029	2,325,000	366,500				
2030	2,440,000	250,250				
2031	2,565,000	128,250				
	39,385,000	35,249,895	11,170,000	2,799,826	11,000,000	3,265,315
Less current			1,160,000		1,010,000	
	$ 39,385,000	$ 35,249,895	$ 10,010,000	$ 2,799,826	$ 9,990,000	$ 3,265,315

	Revenue and Refunding 2002 C Series 5-22-02		Revenue and Refunding 2003 Series 6-10-03	
	Principal	Interest	Principal	Interest
2004	$ 455,000	$ 538,903	$ 205,000	$ 2,034,892
2005	465,000	527,983	250,000	1,778,287
2006	475,000	514,963	995,000	1,773,288
2007	495,000	500,119	1,710,000	1,753,387
2008	505,000	483,289	1,770,000	1,702,088
2009	530,000	464,351	1,830,000	1,648,987
2010	550,000	443,681	1,890,000	1,594,088
2011	575,000	420,994	1,950,000	1,537,387
2012	600,000	396,556	2,035,000	1,459,388
2013	620,000	370,756	2,125,000	1,377,987
2014	650,000	343,476	2,200,000	1,292,988
2015	680,000	314,226	2,315,000	1,182,987
2016	710,000	282,776	2,435,000	1,067,238
2017	740,000	249,051	2,565,000	945,487
2018	775,000	213,531	2,695,000	817,238
2019	815,000	175,750	2,835,000	682,487
2020	855,000	135,000	2,985,000	540,738
2021	900,000	92,250	3,140,000	391,487
2022	945,000	47,250	3,300,000	234,488
2023			1,635,000	69,488
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
	12,340,000	6,514,905	40,865,000	23,884,405
Less current	455,000		205,000	
	$ 11,885,000	$ 6,514,905	$ 40,660,000	$ 23,884,405

Eugene Water & Electric Board

Electric System

Long-term Bonded Debt and Interest Payment Requirements, Including Current Portion, Continued

December 31, 2003

	Total Electric System Payments		
	Principal	Interest	Total
2004	$ 4,645,000	$ 11,268,263	$ 15,913,263
2005	6,145,000	10,489,413	16,634,413
2006	7,535,000	10,215,626	17,750,626
2007	8,710,000	9,887,356	18,597,356
2008	9,310,000	9,495,943	18,805,943
2009	9,940,000	9,068,254	19,008,254
2010	10,600,000	8,603,018	19,203,018
2011	11,320,000	8,097,664	19,417,664
2012	8,850,000	7,530,807	16,380,807
2013	7,930,000	7,088,929	15,018,929
2014	8,950,000	6,691,200	15,641,200
2015	9,745,000	6,215,552	15,960,552
2016	10,585,000	5,691,552	16,276,552
2017	9,855,000	5,117,389	14,972,389
2018	10,745,000	4,584,640	15,329,640
2019	11,700,000	4,002,372	15,702,372
2020	12,735,000	3,364,877	16,099,877
2021	13,845,000	2,670,066	16,515,066
2022	15,020,000	1,913,836	16,933,836
2023	5,202,106	4,190,481	9,392,587
2024	2,664,611	4,175,639	6,840,250
2025	2,729,720	4,299,280	7,029,000
2026	2,799,579	4,423,671	7,223,250
2027	2,866,540	4,496,210	7,362,750
2028	2,215,000	477,250	2,692,250
2029	2,325,000	366,500	2,691,500
2030	2,440,000	250,250	2,690,250
2031	2,565,000	128,250	2,693,250
	213,972,556	154,804,288	368,776,844
Less current	4,645,000		4,645,000
	$ 209,327,556	$ 154,804,288	$ 364,131,844

Eugene Water & Electric Board

Water System

Long-term Bonded Debt and Interest Payment Requirements, Including Current Portion

December 31, 2003

	Revenue Bonds Refunding 1997 Series 11-4-97		Revenue Bonds 2000 Series 1-1-00		Revenue Bonds 2002 Series 7-16-02	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2004	$ 825,000	$ 116,590		$ 1,224,098		$ 406,101
2005	860,000	79,878		1,224,098		406,101
2006	905,000	41,178		1,224,098		406,101
2007			$ 450,000	1,224,098	$ 460,000	406,101
2008			470,000	1,200,698	470,000	393,451
2009			495,000	1,176,023	490,000	378,764
2010			520,000	1,149,788	505,000	362,839
2011			550,000	1,122,228	525,000	345,164
2012			580,000	1,092,083	545,000	326,264
2013			610,000	1,061,483	570,000	305,826
2014			645,000	1,027,933	595,000	283,596
2015			680,000	992,135	620,000	259,796
2016			720,000	954,055	645,000	234,221
2017			760,000	913,555	675,000	206,809
2018			800,000	870,615	710,000	178,121
2019			845,000	825,015	740,000	147,059
2020			895,000	776,428	780,000	113,759
2021			950,000	724,518	815,000	77,879
2022			1,005,000	669,418	855,000	40,185
2023			1,060,000	611,128		
2024			1,120,000	549,648		
2025			1,185,000	484,688		
2026			1,255,000	415,069		
2027			1,330,000	341,338		
2028			1,410,000	263,200		
2029			1,490,000	180,363		
2030			1,580,000	92,825		
	2,590,000	237,646	21,405,000	22,390,626	10,000,000	5,278,137
Less current	825,000					
	$ 1,765,000	$ 237,646	$ 21,405,000	$ 22,390,626	$ 10,000,000	$ 5,278,137

Total Water System Payments		
Principal	Interest	Total
$ 825,000	$ 1,746,789	$ 2,571,789
860,000	1,710,077	2,570,077
905,000	1,671,377	2,576,377
910,000	1,630,199	2,540,199
940,000	1,594,149	2,534,149
985,000	1,554,787	2,539,787
1,025,000	1,512,627	2,537,627
1,075,000	1,467,392	2,542,392
1,125,000	1,418,347	2,543,347
1,180,000	1,367,309	2,547,309
1,240,000	1,311,529	2,551,529
1,300,000	1,251,931	2,551,931
1,365,000	1,188,276	2,553,276
1,435,000	1,120,364	2,555,364
1,510,000	1,048,736	2,558,736
1,585,000	972,074	2,557,074
1,675,000	890,187	2,565,187
1,765,000	802,397	2,567,397
1,860,000	709,603	2,569,603
1,060,000	611,128	1,671,128
1,120,000	549,648	1,669,648
1,185,000	484,688	1,669,688
1,255,000	415,069	1,670,069
1,330,000	341,338	1,671,338
1,410,000	263,200	1,673,200
1,490,000	180,363	1,670,363
1,580,000	92,825	1,672,825
33,995,000	27,906,409	61,901,409
825,000		825,000
$ 33,170,000	$ 27,906,409	$ 61,076,409

SCHEDULE OF BONDED DEBT
(INCLUDING CURRENT PORTION) TRANSACTIONS

Eugene Water & Electric Board

Electric System
Schedule of Bonded Debt (Including Current Portion)
Transactions
December 31, 2003

	Principal			
	Outstanding January 1, 2003	Issued During Year	Matured During Year	Outstanding December 31, 2003
Electric Revenue Bonds, with interest rates from 3.90% to 6.70%, maturing through 2031 (original issue $190,230,000)	$ 114,039,000	$ -	$ (38,109,000)	$ 75,930,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue $127,190,000)	69,405,000	40,865,000	(2,420,000)	107,850,000
Electric Revenue Current Interest Bonds, with interest rate of 6.23%, maturing through 2027 (original issue $29,997,556)	30,192,556			30,192,556
Total Electric System	$ 213,636,556	$ 40,865,000	$ (40,529,000)	$ 213,972,556

Interest			
Due January 1, 2003	Matured During Year	Redeemed During Year	Due December 31, 2003
$ 2,217,536	$ 4,878,143	$ (5,101,661)	$ 1,994,018
1,788,416	2,826,000	(3,407,056)	1,207,360
1,493,731	1,638,776	(1,638,716)	1,493,791
$ 5,499,683	$ 9,342,919	$ (10,147,433)	$ 4,695,169

Eugene Water & Electric Board

Water System
Schedule of Bonded Debt (Including Current Portion) Transactions
December 31, 2003

	Principal			
	Outstanding January 1, 2003	Issued During Year	Matured During Year	Outstanding December 31, 2003
Water Revenue Refunding Bonds, with interst rates from 4.35% to 4.55%, maturing through 2006 (original issue $6,615,000)	$ 3,380,000		$ (790,000)	$ 2,590,000
Water Revenue Bonds, with interest rates from 2.75% to 5.875%, maturing through 2030 (original issue $31,405,000)	31,405,000	$ -		$ 31,405,000
Total Water System	$ 34,785,000	$ -	$ (790,000)	$ 33,995,000

Interest			
Due January 1, 2003	Matured During Year	Redeemed During Year	Due December 31, 2003
$ 62,899	$ 136,636	$ (150,955)	$ 48,580
679,250	1,630,198	(1,630,198)	679,250
$ 742,149	$ 1,766,834	$ (1,781,153)	$ 727,830

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.

Report of Independent Auditors on Internal Control
and Other Comments and Disclosures
Required by State Regulations

To the Board of Commissioners of
Eugene Water & Electric Board

Internal Control

In planning and performing our audit of the financial statement of Eugene Water & Electric Board as of and for the year ended December 31, 2003, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above. However, we noted other matters involving the internal control and operations, which will be reported in a separate letter to management.

This report is intended for the information of the members of the Board of Commissioners, management and the Secretary of State, Audits Division, of the State of Oregon. However, this report is a matter of public record and its distribution is not limited.

Other Comments and Disclosures

We have audited the financial statements of Eugene Water & Electric Board as of and for the year ended December 31, 2003, and our report thereon is included on pages 1 and 2 of this report.

In connection with our audit, nothing came to our attention that caused us to believe Eugene Water & Electric Board was not in compliance with the following matters. However, our audit was not directed toward obtaining knowledge of noncompliance with such requirements. The matters include:

- the collateral requirements for public fund deposits specified in ORS 295;
- the appropriate laws, rules and regulations, including financial reporting, pertaining to programs funded wholly or partially by other governmental agencies;
- ORS 294.035 in the investment of public monies;
- ORS 279 in the awarding of public contracts and the construction of public improvements; and
- the Cost Accounting Guidelines developed by the State Executive Department.

Additionally, we make the following other comments:

- We found the Board's accounting records to be adequate for audit purposes.
- We reviewed the Board's insurance and fidelity bond coverage at December 31, 2003 and ascertained such policies appeared to be in force. We are not competent by training to state whether the insurance policies covering Board-owned property in force at December 31, 2003 are adequate.
- All other comments and disclosures required by the *Minimum Standards for Audits of Oregon Municipal Corporations* are omitted, as the required information is inapplicable or the information is presented in the general purpose financial statements and supplementary data.

PricewaterhouseCoopers LLP

Ann Rhoads

Ann E. Rhoads, Partner

January 31, 2004