



Eugene Water & Electric Board

.....
Independent Auditor's Reports
.....
and **Financial Statements**
.....

December 31, 2009 and 2008

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Eugene Water & Electric Board

Board of Commissioners

Mr. Ron Farmer, Wards 4 & 5, President

Mr. John H. Brown, “At Large,” Vice President

Mr. Rich Cunningham, Wards 6 & 7, Member

Mr. Bob Cassidy, Wards 2 & 3, Member

Ms. Joann Ernst, Wards 1 & 8, Member

Officers

Mr. Randy L. Berggren, General Manager, Secretary

Ms. Debra J. Smith, Assistant Secretary

Mr. James H. Origliosso, Treasurer

Ms. Catherine D. Bloom, Assistant Treasurer

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the accompanying balance sheets of the Electric System, Water System and Combined Total Systems of Eugene Water & Electric Board (Board) as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2009 and 2008 and the results of its individual and combined operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information following the financial statements and notes to financial statements is provided for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and we do not express an opinion on it.



For Moss Adams LLP
Portland, Oregon
March 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Eugene Water & Electric Board (EWEB or the Board) commenced operation in 1912 and is the largest publicly owned electric and water utility in Oregon. It produces approximately 13% of the generation required to serve loads and purchases the remainder from the Bonneville Power Administration (Bonneville) and other sources. Drinking water is obtained from the McKenzie River, a glacially fed source of the purest water available nationally. Its 540 employees serve a community of 146,000 including the University of Oregon as well as several surrounding areas outside of the city.

EWEB is an administrative unit of the City of Eugene, Oregon (the City) with responsibilities for operation of the water and electric utilities delegated by City Charter to the publicly elected board of five commissioners. The Board operates vertically integrated electric and water utilities with 86,900 electric and 50,700 water customers.

Highlights for 2009

➤ **Economic Crisis and Response**

The national and regional recession deepened and broadened during 2009 with significant impacts on local employment and related consumption of electricity and water. The Board responded with a comprehensive Community Care package amounting to \$4.4 million of budget surplus accumulated during 2008. The program included a \$30 rebate to all residential customers and targeted assistance to customers experiencing recent unemployment or other financial hardship.

➤ **Renewable Energy**

- **Harvest Wind** – joint ownership of a nearly 100 MW wind project, which began operation in December. This project is eligible for federal grant money to partially reimburse EWEB for its costs.
- **Biomass** – agreed to terms for the purchase of 100% of the output of a planned, local, biomass facility. Operation is planned for late 2010.

In June of 2007, Oregon legislators created a Renewable Portfolio Standard requiring utilities, depending on their size, to acquire new renewable resources with the goal of achieving 25% of the State's energy from renewable sources by 2025. Because EWEB is heavily supplied by hydro-electric generation and its new renewable acquisitions are ahead of load needs, EWEB staff anticipates no problem meeting the standard through the year of 2025 and well beyond.

➤ **Compliance – North American Reliability Corporation (NERC)**

EWEB implemented the rigorous requirements of NERC's Critical Infrastructure Standards on schedule on December 31, 2009. Those standards ensure both physical and cyber security of EWEB's facility and technology infrastructure. Additionally, a NERC audit performed in October received a perfect score.

MANAGEMENT'S DISCUSSION AND ANALYSIS

➤ **Sustainability Reporting – Global Reporting Initiative (GRI)**

The Board joined the growing global community choosing to report on sustainability under the standardized framework of the GRI, which is designed to make reporting of sustainability as standard as financial reporting. This was an organization-wide effort to accomplish reporting for the many social, economic and environmental indicators that are the basis of the reporting. Annual reporting is expected to inform EWEB's strategic decision making.

➤ **Employee Safety**

The organization experienced substantial improvement in employee safety including a 35% decrease in recordable injuries and a 50% decrease in lost work days due to accidents or injuries.

Financial performance for 2009 was stable with modest additions to reserve levels in both the electric and water utilities. Although there was significant fall-off in customer consumption related to poor economic conditions, revenues were supported by retail rate adjustments in both utilities.

Financial results were affected by the cessation of operations of the Hynix semiconductor plant late in 2008. Hynix had been the largest water customer (589 million gallons) and the second largest electric customer (23 megawatts). The closure of the Hynix plant was mitigated through retail rate actions in 2009. Over the longer-term, loss of Hynix electric sales are expected to be replaced by substantial increases in load related to expansion of University of Oregon operations.

Financial Policies and Controls

EWEB'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 above the average of publicly owned electric and water utilities. Planning is guided by ten-year forecasts of balance sheet, operating, and capital items. These tools are used to identify the impacts of anticipated initiatives and to devise strategies to meet the Board's financial objectives.

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

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

The following discussion and analysis of the financial performance of EWEB provides a summary of the activity for the years ended December 31, 2009, 2008 and 2007. This discussion and analysis should be read in combination with the financial statements.

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. Retail sales comprise 70% of revenues with wholesale sales accounting for 30% of revenues. Heating load and general economic conditions are the primary influences on retail sales. During 2009, retail load decreased by 8% from 2008 which includes the full-year effect of the closure of the Hynix plant.

EWEB sets budgets and power supply forecasts conservatively. Budgets assume that available water for generation will be 85% of the historical average. When the amount of water for generation is greater than 85%, additional funds are held in reserves to offset potential deficits in future years. Water available for generation in 2009 was 87% of normal (94% and 93% in 2008 and 2007, respectively) contributing to substantial deposits to cash reserve accounts.

Since the majority of EWEB's power supply comes from hydroelectric generation, financial performance of the electric utility is largely influenced by the availability of water for generation in excess of 85% of normal and the prices obtainable for excess generation in the wholesale markets. Substantial wholesale sales activity complements sales to retail customers and provides a stabilizing portfolio effect.

During 2009, the electric system purchased 60% of its power from Bonneville (50% in 2008 and 47% in 2007). The majority of power purchased from Bonneville is provided under a "Slice of System" contract. Under the Slice agreement EWEB has rights to 2.4% of the output of the federal Bonneville system. The remainder is obtained under a standard output (Block) contract. At critical water conditions (i.e., lowest on historical record) the Block and Slice output, together with EWEB's self-generation is sufficient to serve retail load. The price of Slice power is set assuming critical water conditions. When water conditions are above critical, the resulting secondary output is obtained at no additional charge. To the extent there is excess secondary power available above that necessary to serve retail load, the excess is sold into wholesale power markets. Retail rates are lower when wholesale volume and prices are higher. Wholesale price levels are supported by output sales into forward markets and by financial instruments that have the effect of setting minimum prices for sales of secondary power.

Financial performance during 2009 continued to support cash reserves at a level higher than established targets. By the end of 2009, unrestricted cash reserves stood at \$103.7 million against an overall reserve target of \$88.5 million. (Total working cash and reserves were \$98 million in 2008 and \$78 million in 2007.) This provides a substantial amount of financial flexibility to the Board going forward which it can use to avoid additional debt and/or reduce existing liabilities and otherwise respond to economic uncertainties.

Financial Summary and Analysis

Electric system operating revenue for 2009 decreased by \$46 million. Of this amount \$33 million was the result of lower wholesale sales caused by depressed energy prices during much of the year. \$10 million was the effect of lower retail sales including \$7 million from the full-year effect of the Hynix closure; and residential sales were down by \$2 million in the form of customer rebates as part of the Board's increased Community Care program. Rates were increased an average of 5% in September to pass-through increases in Bonneville wholesale power costs.

Operating expenses decreased by \$24 million during 2009. The cost of purchased power and related system control and wheeling decreased by \$27 million due to decreases in volume purchases and the unit prices. Customer Accounting expense increased by \$1.4 million to fund customer bill paying assistance, also a part of the Community Care program. Energy Conservation expenses increased by \$.6 million to achieve greater energy savings, and depreciation increased \$.7 million reflecting higher plant values. Non-operating revenues were significantly lower (\$4.7 million) as a function of lower interest earnings reflecting the recessionary interest rate environment.

From an operating perspective financial performance was positive in 2009, however it did not provide the level of net revenue experienced in the prior two years. Overall 2009 revenues exceeded expenses at levels sufficient to accumulate additional cash reserves. Balance sheet measures improved somewhat with growth in both assets and equity (net assets). Working cash and reserve balances were \$103.6 million at year-end 2009, an increase of \$6 million over year-end 2008. This compares with annual reserve balance increases of \$20 million in both 2008 and 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Data

(in millions of dollars)

	2009	2008	2007
Operating revenues	\$ 234	\$ 280	\$ 263
Operating expenses	<u>(192)</u>	<u>(217)</u>	<u>(212)</u>
Net operating income	42	63	51
Non-operating revenues	5	9	8
Non-operating expenses	<u>(29)</u>	<u>(28)</u>	<u>(24)</u>
Income before contributed capital	18	44	35
Contributed capital	<u>1</u>	<u>1</u>	<u>4</u>
Change in net assets	<u>\$ 19</u>	<u>\$ 45</u>	<u>\$ 39</u>
Total assets	<u>\$ 628</u>	<u>\$ 586</u>	<u>\$ 494</u>
Total liabilities	<u>\$ 343</u>	<u>\$ 320</u>	<u>\$ 274</u>
Net assets			
Invested in capital assets, net of related debt	172	150	117
Restricted	8	8	6
Unrestricted	<u>105</u>	<u>108</u>	<u>97</u>
Total net assets	<u>285</u>	<u>266</u>	<u>220</u>
Total liabilities and net assets	<u>\$ 628</u>	<u>\$ 586</u>	<u>\$ 494</u>

During 2009 the Board acquired a 20% (19.8 MW) interest in the Harvest Wind generation facility which initiated commercial operation in December 2009. The Board's interest is recorded on the balance sheet as an investment asset of \$41.6 million, with the related short-term construction debt recorded as a current liability of \$43 million. Substantial transmission expense for this project is prepaid and separately reported: \$1.9 million.

Electric Utility capital construction is provided for through a combination of construction fees, cash flow from revenues and long-term revenue bonds. The electric system Capital Improvement Plan (CIP) (2010-2014) calls for major transmission/distribution substation replacements and improvements to related feeder systems. A major new substation is planned to serve additional University of Oregon loads. Also included in the CIP are substantial outlays for relicensing improvements to the Carmen-Smith Hydroelectric Generation Project and completion of the Roosevelt Operations Center.

As of the end of 2009, the electric system had \$563 million in plant in service, an increase of \$23 million from 2008. Major additions during 2009 included replacements in the distribution system for \$16 million and \$3 million for upgrades at Leaburg and Carmen Smith hydro facilities. Capital additions were \$25 million and \$18 million in 2008 and 2007, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Significant construction work in progress at the end of 2009 included standard electric utility improvements for distribution and generation and less typical activity such as \$30 million for a new operations location (Roosevelt Operations Center), and \$7 million to upgrade software and computer infrastructure. Construction work in progress was \$28 million and \$23 million in 2008 and 2007, respectively.

Capital Assets

(in millions of dollars)

	2009	2008	2007
Production and land	\$ 203	\$ 200	\$ 195
Transmission and distribution	273	259	243
General plant	<u>87</u>	<u>81</u>	<u>77</u>
Total utility plant in service	<u>\$ 563</u>	<u>\$ 540</u>	<u>\$ 515</u>

Liabilities

(in millions of dollars)

	2009	2008	2007
Current liabilities	\$ 92	\$ 49	\$ 49
Noncurrent liabilities	<u>251</u>	<u>271</u>	<u>225</u>
Total liabilities	<u>\$ 343</u>	<u>\$ 320</u>	<u>\$ 274</u>

There was no new long-term debt issued in 2009, consequently noncurrent liabilities decreased by \$20 million, however \$84.4 million of electric revenue and refunding bonds were issued in 2008 to partially fund construction of the Roosevelt Operations Center and to refund Series 1994 bonds. A short-term credit facility was implemented during 2009 to provide interim taxable financing for participation in the construction of the Harvest Wind Project. A total of \$43 million was drawn on the bank line of credit, the terms of which have been extended through May 27, 2010. The Board expects to refinance the line of credit with long-term debt in early 2010.

Water System

The water system provides water to all areas within the City, and two water districts. During 2009 the water system sold approximately 8.8 billion gallons of water, 8.5% of which was to the water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, the second largest full-treatment plant in Oregon and will soon be the largest upon completion of the current expansion. Water is pumped from the Hayden Bridge Filtration Plant into the distribution system through two large transmission mains. The water distribution system consists of 26 enclosed reservoirs with a combined storage capacity of 94 million gallons, 31 pump stations and over 800 miles of distribution mains.

Financial Summary and Analysis

Beginning in 2007 the Board initiated a multi-year effort to position the water utility to address the replacement of aging water infrastructure as many water mains and distribution facilities were installed over 80 years ago and have been experiencing an increasing rate of failure. This effort is to be funded through a multi-year program of retail rate increases directed toward increasing annual capital investment in the system. The rate increases are to be supplemented by additional long-term debt in the early years in order to have a significant effect on system performance.

Net operating revenue for 2009 was \$6 million versus \$5 million in 2008 and \$680,000 in 2007. During 2009, water system operating revenues increased by \$2.1 million or 10%. This increase was largely attributable to a retail rate increase effective May 2009. Operating expenses increased by \$1 million (or 6%) driven primarily by depreciation expense (\$380,000 increase) and increased maintenance cost of the distribution system (\$348,000 increase). Late in 2008, the water system received notice that its largest industrial customer (Hynix) was ceasing operations by the year-end. This negatively impacted operating revenue by \$364,000 for 2008; the full year effect was experienced in 2009 and amounted to \$915,000 in lower revenue.

Non-operating revenues consist primarily of interest revenues and system development charges. Non-operating expenses are primarily interest and other financing costs. While non-operating expenses were similar to 2008, non-operating revenues were substantially lower due to the precipitous fall off in customer construction activity and in the interest rates on funds held for construction and other reserves. In total, interest earnings were \$723,000 less than in 2008 and other interest rate related non-operating revenue was lower by \$215,000.

Contributions in aid of construction were down \$748,000 (54%) from 2008 amounts due to the general decline in construction activity and the resultant decrease in system development charges collected amounted to \$322,000 or nearly 40% less than 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Financial Data

(in millions of dollars)

	2009	2008	2007
Operating revenues	\$ 23.1	\$ 20.9	\$ 18.4
Operating expenses	<u>(17.0)</u>	<u>(16.0)</u>	<u>(17.7)</u>
Net operating income	6.1	4.9	0.7
Non-operating revenues	0.4	1.4	1.3
Non-operating expenses	<u>(2.4)</u>	<u>(2.4)</u>	<u>(1.9)</u>
Income before contributed capital	4.1	3.9	0.1
Contributed capital	<u>1.4</u>	<u>2.3</u>	<u>5.9</u>
Change in net assets	<u>\$ 5.5</u>	<u>\$ 6.2</u>	<u>\$ 6.0</u>
Total assets	<u>\$ 113.4</u>	<u>\$ 109.6</u>	<u>\$ 90.9</u>
Total liabilities	<u>\$ 42.8</u>	<u>\$ 44.5</u>	<u>\$ 32.0</u>
Invested in capital assets, net of related debt	53.1	49.2	43.0
Restricted	5.0	8.2	9.7
Unrestricted	<u>12.5</u>	<u>7.7</u>	<u>6.2</u>
Total net assets	<u>70.6</u>	<u>65.1</u>	<u>58.9</u>
Total liabilities and net assets	<u>\$ 113.4</u>	<u>\$ 109.6</u>	<u>\$ 90.9</u>

Capital construction is provided through a combination of construction fees, cash flow from net revenues, and long-term revenue bonds.

At year-end 2009, the water system had \$143 million invested in a variety of capital assets. Utility plant in service, net of accumulated depreciation, was \$67 million representing a 16% increase from 2008. Significant additions were for the transmission and distribution system (\$4.5 million) and Laurel Hill Reservoir (\$2.8 million). Net plant in service was \$58 million in 2008, an increase of 9% over the prior year. During 2007, net plant in service increased 11%.

The water utility had substantial capital work in process (\$21 million at year-end) including reservoir additions and upgrades, water main replacements and improvements and a major \$13 million upgrade at the Hayden Bridge Filtration Plant. The Hayden Bridge project will provide the capacity to treat an additional 12 million gallons per day; it was placed into service February 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

(in millions of dollars)

	2009	2008	2007
Production and land	\$ 38	\$ 36	\$ 35
Transmission and distribution	97	88	83
General plant	<u>8</u>	<u>7</u>	<u>6</u>
Total utility plant in service	<u><u>\$ 143</u></u>	<u><u>\$ 131</u></u>	<u><u>\$ 124</u></u>

Liabilities

(in millions of dollars)

	2009	2008	2007
Current liabilities	\$ 4	\$ 4	\$ 5
Noncurrent liabilities	<u>39</u>	<u>40</u>	<u>27</u>
Total liabilities	<u><u>\$ 43</u></u>	<u><u>\$ 44</u></u>	<u><u>\$ 32</u></u>

At year-end the water system had \$36 million of revenue bonds outstanding versus \$37 million at the end of 2008 and \$22 million in 2007. In July 2008, \$16 million in new revenue bonds were issued to fund capacity additions to the Hayden Bridge Filtration Plant and the replacement of storage, transmission and distribution facilities.

The 2007 update to the water system Capital Improvement Plan (CIP) specified a long-term program of renewals and replacements of distribution mains. Prior year versions of the CIP had projected the need for additional long-term source of supply and upgrades to the purification system. These capital improvement needs are expected to create upward pressure on retail rates through 2012.

Water rates were increased 18% in May 2009 to recover net revenue losses associated with the Hynix shut down, to continue the replacement of aging water mains, and to stabilize cash reserve positions. Water rates were increased 17% in May 2008 as part of a multi-year program of rate adjustments to fund the revised capital improvement program. Retail rates were increased 9.2 % in May 2007 to account for multiple years of lower-than-projected water sales.

Outlook

As the effects of the recession continue into 2010, customer assistance targeted toward those experiencing financial hardship has been extended.

Modest retail rate increases are proposed in 2010 to recover costs and maintain reserves within targeted levels. With these changes, EWEB rates will remain at approximately the average of utilities in the region and much lower than average when compared nationally.

Significant additional capital construction will be completed during 2010 including the Hayden Bridge Filtration Plant upgrade and the Roosevelt Operation Center. Approximately one-half of the Board's employees are expected to move into the new operation facility in the fall of 2010. Also expected is final FERC approval of a new operating license for the Carmen Smith Hydroelectric Project. During 2010, ground-breaking will occur for a new transmission grade electric substation to serve growing University of Oregon loads.

During 2009 electric cash reserve levels were maintained beyond targeted levels in anticipation of draws to support cash flow during the period 2011-14 when the Carmen Smith Hydroelectric Project is expected to be taken out of service for capital construction required by the new FERC operating license.

BALANCE SHEETS - ASSETS
December 31, 2009 and 2008

	Electric System		Water System	
	2009	2008	2009	2008
ASSETS				
Utility plant in service	\$ 562,998,482	\$ 539,854,487	\$ 143,170,492	\$ 130,781,998
Less accumulated depreciation	298,710,026	286,258,018	76,157,391	72,966,529
Net utility plant in service	264,288,456	253,596,469	67,013,101	57,815,469
Property held for future use	789,172	2,802,783	989,578	989,578
Construction work in progress	60,832,394	40,608,490	21,147,888	16,646,566
Net utility plant	325,910,022	297,007,742	89,150,567	75,451,613
Debt service reserves	2,802,922	2,796,502	1,402,664	777,349
Customer deposit reserve	2,545,724	3,210,057	-	-
Construction funds	34,773,681	49,176,998	189,863	11,057,461
System development charge reserves	-	-	3,019,030	6,703,117
Investments for bond principal and interest	9,606,345	9,524,581	1,226,918	1,233,543
Restricted cash and investments	49,728,672	64,708,138	5,838,475	19,771,470
Cash and cash equivalents	876,128	4,227,965	1,906,900	2,075,247
Short-term investments	20,876,617	15,659,195	-	-
Designated cash and investments				
Purchased power reserve	39,644,399	32,271,265	-	-
Capital improvement reserve	13,920,830	17,939,278	7,149,736	2,644,448
Carmen-Smith reserve	21,570,778	21,352,096	-	-
Operating reserve	3,778,065	2,942,120	1,287,372	1,099,608
Pension and medical reserve	2,998,862	3,329,512	-	-
Receivable, less allowances	34,164,865	36,212,276	1,770,985	1,779,715
Note and interest receivable, Water	363,379	363,379	-	-
Materials and supplies	2,465,717	2,529,069	681,416	549,507
Prepays	2,346,183	2,183,800	560,585	576,896
Option premiums short-term	3,657,866	4,015,457	-	-
Total current assets	146,663,689	143,025,412	13,356,994	8,725,421
Prepaid retirement obligation	15,737,682	16,681,942	3,454,611	3,661,888
Long-term receivables, conservation and other	4,441,735	5,031,299	-	-
Note receivable, Water	3,454,611	3,661,888	-	-
Investment in Harvest Wind	41,552,929	-	-	-
Deferred charges				
Preliminary investigations	19,051,658	28,757,375	-	-
Conservation assets	5,995,807	7,440,448	-	-
Derivatives at fair value	2,530,525	10,483,675	-	-
Option premiums long-term	1,274,160	346,500	-	-
Other deferred charges	11,693,573	8,699,700	1,544,909	2,008,962
Total other assets	105,732,680	81,102,827	4,999,520	5,670,850
Total assets	\$ 628,035,063	\$ 585,844,119	\$ 113,345,556	\$ 109,619,354

Note: Inter-system note receivable and payable are eliminated in the Total Systems column.

See accompanying notes.

BALANCE SHEETS - ASSETS
December 31, 2009 and 2008

Total Systems	
2009	2008
\$ 706,168,974	\$ 670,636,485
374,867,417	359,224,547
331,301,557	311,411,938
1,778,750	3,792,361
81,980,282	57,255,056
415,060,589	372,459,355
4,205,586	3,573,851
2,545,724	3,210,057
34,963,544	60,234,459
3,019,030	6,703,117
10,833,263	10,758,124
55,567,147	84,479,608
2,783,028	6,303,212
20,876,617	15,659,195
39,644,399	32,271,265
21,070,566	20,583,726
21,570,778	21,352,096
5,065,437	4,041,728
2,998,862	3,329,512
35,935,850	37,991,991
-	-
3,147,133	3,078,576
2,906,768	2,760,696
3,657,866	4,015,457
160,020,683	151,750,833
19,192,293	20,343,830
4,441,735	5,031,299
-	-
-	-
19,051,658	28,757,375
5,995,807	7,440,448
2,530,525	10,483,675
1,274,160	346,500
13,238,482	10,708,662
110,732,200	86,773,677
\$ 741,380,619	\$ 695,463,473

Continued

BALANCE SHEETS - LIABILITIES AND NET ASSETS
December 31, 2009 and 2008

	Electric System		Water System	
	2009	2008	2009	2008
LIABILITIES				
Payables	\$ 29,342,701	\$ 29,317,456	\$ 1,340,173	\$ 1,419,061
Accrued payroll and benefits	3,095,253	4,402,868	627,947	839,178
Accrued interest on long-term debt	4,818,461	5,027,143	686,164	720,136
Line of credit	43,000,000	-	-	-
Long-term debt due within one year	11,610,000	10,780,000	1,295,000	1,225,000
Note and interest payable, Electric	-	-	363,379	363,379
Total current liabilities	91,866,415	49,527,467	4,312,663	4,566,754
Long-term debt, bonds payable	223,886,805	235,219,121	34,575,096	35,783,476
Note payable, Electric	-	-	3,454,611	3,661,888
Derivatives at fair value	2,530,525	10,483,675	-	-
Other liabilities	4,220,701	3,753,306	433,891	483,482
Deferred revenue	20,000,000	20,000,000	-	-
Deferred credit - WGA	755,807	1,085,544	-	-
Total liabilities	343,260,253	320,069,113	42,776,261	44,495,600
NET ASSETS				
Invested in capital assets, net of related debt	171,868,487	149,934,417	52,883,226	49,241,856
Restricted	7,899,306	7,958,557	5,152,311	8,240,601
Unrestricted	105,007,017	107,882,032	12,533,758	7,641,297
Total net assets	284,774,810	265,775,006	70,569,295	65,123,754
Total liabilities and net assets	\$ 628,035,063	\$ 585,844,119	\$ 113,345,556	\$ 109,619,354

Note: Inter-system note receivable and payable are eliminated in the Total Systems column.

See accompanying notes.

BALANCE SHEETS - LIABILITIES AND NET ASSETS
December 31, 2009 and 2008

Total Systems	
2009	2008
\$ 30,682,874	\$ 30,736,517
3,723,200	5,242,046
5,504,625	5,747,279
43,000,000	-
12,905,000	12,005,000
-	-
96,179,078	54,094,221
258,461,901	271,002,597
-	-
2,530,525	10,483,675
4,654,592	4,236,788
20,000,000	20,000,000
755,807	1,085,544
386,036,514	364,564,713
224,751,713	199,176,273
13,051,617	16,199,158
117,540,775	115,523,329
355,344,105	330,898,760
\$ 741,380,619	\$ 695,463,473

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended December 31, 2009 and 2008

	Electric System		Water System	
	2009	2008	2009	2008
Residential	\$ 80,939,829	\$ 83,444,630	\$ 12,531,542	\$ 10,757,919
Commercial and industrial	83,117,695	90,433,756	9,987,960	9,073,216
Sales for resale and other	70,237,650	106,185,549	567,638	1,100,922
Operating revenues	234,295,174	280,063,935	23,087,140	20,932,057
Purchased power	92,666,155	120,795,602	-	-
System control	5,082,815	4,822,694	-	-
Wheeling	11,700,114	11,657,271	-	-
Steam and hydraulic generation	13,116,497	14,560,149	-	-
Transmission and distribution	18,488,642	17,123,568	5,890,532	5,542,125
Source of supply, pumping and purification		-	2,905,108	2,765,719
Customer accounting	10,158,193	8,541,642	1,241,591	1,142,470
Conservation expenses	7,633,877	7,041,011	387,963	403,907
Administrative and general	20,091,862	19,473,199	3,476,822	3,437,930
Depreciation on utility plant	13,421,472	12,711,109	3,132,460	2,753,118
Operating expenses	192,359,627	216,726,245	17,034,476	16,045,269
Net operating income	41,935,547	63,337,690	6,052,664	4,886,788
Interest earnings on investments	1,557,591	5,284,555	147,723	870,960
Allowance for funds used during construction	185,916	442,226	96,052	232,659
Other revenue	3,001,904	3,671,984	201,756	280,583
Non-operating revenues	4,745,411	9,398,765	445,531	1,384,202
Surplus revenue payments	14,311,105	12,460,842	-	-
Other revenue deductions	2,656,690	5,284,900	252,285	664,759
Interest expense and related amortization	11,951,136	10,786,374	2,227,833	1,874,480
Allowance for borrowed funds used during construction	(146,200)	(391,383)	(51,763)	(142,220)
Non-operating expenses	28,772,731	28,140,733	2,428,355	2,397,019
Income before contributed capital	17,908,227	44,595,722	4,069,840	3,873,971
Contributions in aid of construction	1,082,708	1,252,603	623,808	1,372,178
Contributed plant assets	8,869	51,904	256,944	118,550
System development charges	-	-	494,949	816,808
Contributed capital	1,091,577	1,304,507	1,375,701	2,307,536
Change in net assets	18,999,804	45,900,229	5,445,541	6,181,507
Total net assets at beginning of year	265,775,006	219,874,777	65,123,754	58,942,247
Total net assets at end of year	\$ 284,774,810	\$ 265,775,006	\$ 70,569,295	\$ 65,123,754

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended December 31, 2009 and 2008

Total Systems	
2009	2008
\$ 93,471,371	\$ 94,202,549
93,105,655	99,506,972
70,805,288	107,286,471
257,382,314	300,995,992
92,666,155	120,795,602
5,082,815	4,822,694
11,700,114	11,657,271
13,116,497	14,560,149
24,379,174	22,665,693
2,905,108	2,765,719
11,399,784	9,684,112
8,021,840	7,444,918
23,568,684	22,911,129
16,553,932	15,464,227
209,394,103	232,771,514
47,988,211	68,224,478
1,705,314	6,155,515
281,968	674,885
3,203,660	3,952,567
5,190,942	10,782,967
14,311,105	12,460,842
2,908,975	5,949,659
14,178,969	12,660,854
(197,963)	(533,603)
31,201,086	30,537,752
21,978,067	48,469,693
1,706,516	2,624,781
265,813	170,454
494,949	816,808
2,467,278	3,612,043
24,445,345	52,081,736
330,898,760	278,817,024
\$ 355,344,105	\$ 330,898,760

STATEMENTS OF CASH FLOWS

Years ended December 31, 2009 and 2008

	Electric System		Water System	
	2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 236,408,442	\$ 284,755,040	\$ 22,857,039	\$ 20,085,934
Other receipts	852,207	3,185,691	190,354	329,889
Power purchases	(93,978,439)	(117,052,060)	-	-
Payments to employees	(34,071,189)	(28,481,065)	(8,314,745)	(7,102,274)
Payments to suppliers	(55,167,684)	(62,053,610)	(5,330,473)	(6,585,817)
Surplus revenue payments	(14,287,445)	(12,279,584)	-	-
Net cash from operating activities	39,755,892	68,074,412	9,402,175	6,727,732
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investment securities	(304,375,620)	(289,182,405)	(15,981,832)	(29,085,822)
Proceeds from sale and maturities of investments	307,284,473	220,607,915	26,038,938	23,553,058
Interest on investments	5,034,497	6,392,184	536,231	899,660
Additions to equity interest in Harvest Wind	(41,647,676)	-	-	-
Distributions from equity investment in WGA	400,000	400,000	-	-
Net cash from investing activities	(33,304,326)	(61,782,306)	10,593,337	(4,633,104)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Note receipts from Water	207,277	2,032,277	-	-
Proceeds from line of credit	43,000,000	-	-	-
Interest payments	(380,251)	-	-	-
Note payments to Electric	-	-	(207,277)	(2,032,277)
Net cash from non-capital financing activities	42,827,026	2,032,277	(207,277)	(2,032,277)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from bonds	-	86,203,215	-	15,591,884
Refunding of bonds	-	(33,587,712)	-	-
Principal payments	(10,780,000)	(8,555,000)	(1,225,000)	(940,000)
Bond issuance costs	-	-	-	(306,342)
Additions to utility plant, net	(38,832,196)	(35,528,243)	(16,692,418)	(11,897,770)
Interest payments	(12,053,660)	(9,268,727)	(2,102,973)	(1,160,763)
Additions to preliminary surveys and other	8,850,721	(11,080,424)	-	-
Contributed capital	1,091,577	1,304,507	1,118,756	2,188,986
Net cash from capital and related financing activities	(51,723,558)	(10,512,384)	(18,901,635)	3,475,995
CHANGE IN CASH AND CASH EQUIVALENTS	(2,444,966)	(2,188,000)	886,600	3,538,346
CASH AND CASH EQUIVALENTS, beginning of year	25,897,264	28,085,264	12,666,301	9,127,955
CASH AND CASH EQUIVALENTS, end of year including cash and cash equivalents restricted or designated: \$22,576,169 and \$3,208,893 (\$21,669,298 and \$10,591,054 in 2008) for Electric and Water, respectively.	\$ 23,452,298	\$ 25,897,264	\$ 13,552,901	\$ 12,666,301

NON-CASH CAPITAL ACTIVITY:

In 2009, plant assets contributed by developers were \$8,869 for the Electric System, and \$118,550 for the Water System.

Note: Inter-system note receivable and payable are eliminated in the Total Systems column.

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2009 and 2008

Total Systems			
2009		2008	
\$	259,265,481	\$	304,840,974
	1,042,561		3,515,580
	(93,978,439)		(117,052,060)
	(42,385,934)		(35,583,339)
	(60,498,157)		(68,639,427)
	(14,287,445)		(12,279,584)
	49,158,067		74,802,144
	(320,357,452)		(318,268,227)
	333,323,411		244,160,973
	5,570,728		7,291,844
	(41,647,676)		-
	400,000		400,000
	(22,710,989)		(66,415,410)
	-		-
	43,000,000		-
	(380,251)		-
	-		-
	42,619,749		-
	-		101,795,099
	-		(33,587,712)
	(12,005,000)		(9,495,000)
	-		(306,342)
	(55,524,614)		(47,426,013)
	(14,156,633)		(10,429,490)
	8,850,721		(11,080,424)
	2,210,333		3,493,493
	(70,625,193)		(7,036,389)
	(1,558,366)		1,350,345
	38,563,565		37,213,219
\$	37,005,199	\$	38,563,564

Continued

STATEMENTS OF CASH FLOWS
Years ended December 31, 2009 and 2008

	Electric System		Water System	
	2009	2008	2009	2008
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES				
Net operating income	\$ 41,935,547	\$ 63,337,690	\$ 6,052,664	\$ 4,886,788
Adjustments to reconcile net operating income to net cash from operating activities				
Depreciation, net	12,452,009	12,465,070	3,132,460	2,753,118
Surplus revenue payments	(14,287,445)	(12,279,584)	-	-
Other revenue	2,825,736	3,702,259	185,176	280,583
Other revenue deductions	-	-	(235,116)	(660,111)
Loss from Harvest Wind	94,747	-	-	-
Income from WGA	(729,737)	(998,824)	-	-
(Increase) decrease in assets				
Receivables	2,047,411	4,223,863	(162,070)	(330,688)
Materials and supplies	63,349	(86,629)	(131,908)	(11,990)
Prepayments and special deposits	195,208	(597,594)	(182,137)	(285,272)
Conservation loans, net	580,294	(266,182)	20,076	(23,425)
Long-term receivables, other	213,763	757,916	-	-
Prepaid retirement obligation	944,260	944,260	207,277	207,277
Deferred charges	4,455,052	50,691	595,313	426,246
Increase (decrease) in liabilities				
Accounts payable, accrued payroll and benefits	(3,676,889)	(6,064,352)	(24,944)	21,008
Other liabilities	(7,357,413)	2,885,828	(54,616)	(535,802)
Net cash from operating activities	<u>\$ 39,755,892</u>	<u>\$ 68,074,412</u>	<u>\$ 9,402,175</u>	<u>\$ 6,727,732</u>

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2009 and 2008

Total Systems	
2009	2008
\$ 47,988,211	\$ 68,224,478
15,584,469	15,218,188
(14,287,445)	(12,279,584)
3,010,912	3,982,842
(235,116)	(660,111)
94,747	-
(729,737)	(998,824)
1,885,341	3,893,175
(68,559)	(98,619)
13,071	(882,866)
600,370	(289,607)
213,763	757,916
1,151,537	1,151,537
5,050,365	476,937
(3,701,833)	(6,043,344)
(7,412,029)	2,350,026
\$ 49,158,067	\$ 74,802,144

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

Note 1 - Reporting entity

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

The Board provides energy and water service to residential, commercial and industrial customers located in a 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, river flow levels, licensing agreements and weather patterns. The Board is subject to various forms of regulation under federal, state and local laws and is subject to various Federal Energy Regulatory Commission (FERC) regulations. Laws and regulations are subject to change and may have a direct impact on the operations of the Board.

Notes receivable and payable between the electric and water utilities are eliminated in the Total Systems columns of the financial statements.

Note 2 - Summary of significant accounting policies

Method of Accounting

The Board maintains its accounting records in accordance with accounting principles generally accepted in the United States of America. As allowed by GASB Statement No. 20, the Board elected to apply all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 except where those standards would conflict with or contradict GASB pronouncements.

On July 1, 2009, the FASB Accounting Standards Codification became the single authoritative source of non-governmental U.S. generally accepted accounting principles (GAAP). The codification supersedes all previous authoritative FASB guidance that was applicable to the Board.

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.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

Reclassifications

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

Utility Plant in Service and Depreciation

Utility plant is stated at original cost. Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e. interest) used during construction. Additions, renewals and betterments with a minimum cost of \$5,000 or greater per item are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property and any removal cost is charged to accumulated depreciation when property is retired. Included in the Board's construction work-in-progress balance are certain costs associated with 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 utility plant to be depreciated over the estimated useful lives of the plant components. Depreciation is computed using straight-line group rates.

Cash Equivalents

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

Fair Value of Financial Instruments

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

Materials and Supplies

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

Option Premiums

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

Prepaid Retirement Obligation

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

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

(Note 2 - Summary of significant accounting policies, continued)

Preliminary Investigations

At December 31, 2009, the Electric System had \$19.1 million in deferred costs for the preliminary investigation of projects it believes will be viable in the future. Most of the balance was for preconstruction relicensing costs of the Carmen Smith Project (\$28.8 million at December 31, 2008 for Carmen Smith and the beginnings of the Harvest Wind Project).

Fair Value of Renewable Energy Certificates

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

Regulatory Deferrals

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

- **Conservation Assets**

Conservation assets for the Electric System represent installations of energy saving measures at the properties of its customers. The deferred balance is reduced as costs are recovered, which for the most part represent debt service payments included in rates for related borrowing.

Conservation assets are amortized as other revenue deductions on the statements of revenues, expenses and changes in net assets.

- **Derivatives at Fair Value**

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

- **Sick Leave**

Employees achieving length of service and age requirements are paid 25% of their accrued sick leave upon retirement. The estimated liability for all future retirements is included in equivalent amounts with Other Deferred Charges and Other Liabilities. Retail rates include an estimate of payments for sick leave on an annual basis.

- **Net Pension Obligation**

A net pension obligation for the Board's supplemental retirement plan is included in equivalent amounts with Other Deferred Charges and Other Liabilities.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

- **Accreted Interest on Capital Appreciation Bonds**

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

- **Deferred Revenue**

Revenues obtained through current rates attributable to significant associated costs to be incurred in the future, are deferred (a decrease in operating revenue) and later recognized (an increase to operating revenue) during the periods when the associated costs are incurred. At December 31, 2007, \$20 million in revenue for the relicensing of Carmen Smith was deferred to future periods when those costs will be incurred.

Debt Refundings

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

Net Assets

Net assets consist of:

- **Invested in capital assets, net of related debt** are capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** net assets have constraints placed on their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.
- **Unrestricted** net assets are remaining amounts that are neither "restricted" nor "invested in capital assets, net of related debt."

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Net Assets, continued)

Net assets are as follows:

	2009		2008	
	Electric System	Water System	Electric System	Water System
Invested in capital assets, net of related debt	\$ 171,868,487	\$ 52,883,226	\$ 149,934,417	\$ 49,241,856
Restricted for:				
Capital projects	308,500	189,863	443,617	246,728
Customer care program	-	-	221,000	-
System development charges	-	3,019,030	-	6,703,117
Debt service	7,590,806	1,943,418	7,293,940	1,290,756
Unrestricted	105,007,017	12,533,758	107,882,032	7,641,297
	<u>\$ 284,774,810</u>	<u>\$ 70,569,295</u>	<u>\$ 265,775,006</u>	<u>\$ 65,123,754</u>

Operating Revenue

Operating revenues are recorded on the basis of service delivered. Revenues are derived primarily from the sale and transmission of electricity and from the sale of water. Revenue is recognized when the power or water is delivered to and received by the customer. Approximately 10% of 2009 Electric System's retail revenues were the result of sales to one industrial customer (15% of retail sales were the result of sales to two customers in 2008). In late 2008, the Water System's previous largest industrial customer ceased active operations, thus accounting for a very small portion of the Water System's operating revenues in 2009 (and 2.6% in 2008). Estimated revenues are accrued for power and water deliveries not yet billed to customers from meter reading dates prior to month end (unbilled revenue).

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

Revenues are recorded net of the allowance for doubtful accounts. The allowance is determined by an examination of write off experience in the preceding five years, and consideration of other influences as appropriate. Total amounts written off for the year ended December 31, 2009 were \$390,000 (\$331,000 for 2008) for the Electric System, and \$41,000 (\$24,000 for 2008) for the Water System.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

Surplus Revenue Payments

In accordance with Oregon Revised Statutes (ORS 225.270), the Electric System makes surplus revenue payments to the City of Eugene at the rate of 6% of retail sales and 17% of net margin on certain wholesale sales. The Board makes surplus revenue payments to the City of Springfield at the rate of 3% of retail sales for customers that lie within the boundaries of the City of Springfield. Total surplus revenue payments for the year ended December 31, 2009 were \$14.3 million (\$12.4 million for 2008).

Environmental Expenses

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

Note 3 – Power Risk Management

The Board's Power Risk Management Guidelines set forth policies, limits and control systems governing power and fuel 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 speculative purposes.

Derivative Financial Instruments

In accordance with policy guidelines, the Board utilizes derivative instruments to minimize its exposure to commodity price risk. GAAP requires that derivative instruments be recorded on the balance sheet as an asset or liability measured at its fair value, on a mark-to-market basis, except as provided by the normal purchase and normal sales exception. These instruments include electricity swaps and options, and natural gas swaps and options. All derivative instruments are classified as cash flow hedges. Fair market value is estimated using an option valuation formula or by comparing contract prices to forward market prices. As allowed by GAAP, the Board records both the effective and ineffective unrealized gains and losses from derivative instruments as a regulatory deferral. Changes in fair value are recognized in current income at the time of settlement. The Board has chosen not to implement GASB 53 ahead of its required effective date and has incorporated instead the effects of FASB Accounting Standards Codification 815-10.

At December 31, 2009, net aggregate unrealized gains from derivative instruments were \$2.7 million (\$10.1 million for 2008) and net aggregate unrealized losses were \$128,000 (\$489,000 for 2008). The notional amounts under such contracts totaled \$13.4 million (\$33.3 million for 2008). The contracts extend through 2011.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Derivative financial instruments, continued)

	Asset Derivatives		Liability Derivatives	
	Balance Sheet	Fair	Balance Sheet	Fair
	Location	Value	Location	Value
Commodity contracts designated as hedging instruments				
Options - electric & gas	Other assets	\$ 1,897,844	Other liabilities	\$ -
Swaps - electric & gas	Other assets	761,023	Other liabilities	(128,342)
		<u>\$ 2,658,867</u>		<u>\$ (128,342)</u>
	Location of	Amount of		
	gain or (loss)	gain or (loss)		
Cash flow hedging commodity contracts	Other assets	\$ 2,658,867		
Cash flow hedging commodity contracts	Other liabilities	(128,342)		
		<u>\$ 2,530,525</u>		

Credit Risk

The Board enters into forward purchase and sale contracts for electricity and natural gas with utilities and marketers. The Board is exposed to credit risk related to the possibility of non-performance by its wholesale counterparties. To limit the risk of counterparty default or non-performance, the Board uses a counterparty evaluation process which assigns an internal measure of credit worthiness to the Board's counterparties and sets limits to the dollar value of business that can be transacted with counterparties.

The Board's derivative instruments are concentrated in the wholesale energy marketing and trading sector, and the banking sector which comprise 92% and 8%, respectively, of all derivative instruments. The Board's derivative instruments are contracted with various counterparties, however 77% of these instruments are with two counterparties. The maximum possible loss as of December 31, 2009 if these counterparties failed to perform as contracted would be \$1.5 million. The maximum possible loss is based on the fair value of the contracts.

Commodity Price Risk

During periods when resources are in excess of retail load and the Board sells excess capacity into the wholesale markets, the Board is exposed to commodity price risk. The Board enters into forward contracts intended to manage the price risk associated with power sales in the wholesale markets.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Note 4 - Utility plant

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

Electric Utility Plant

	Depreciable Life -Years	Balance at December 31, 2008	Increases	Decreases	Balance at December 31, 2009
Land		\$ 5,987,007	\$ 859,779	\$ -	\$ 6,846,786
Steam production	10-25	20,257,655	151,946	-	20,409,601
Hydro production	36-50	160,556,375	2,326,681	-	162,883,056
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	57,087,796	3,063,495	-	60,151,291
Distribution	28.5	202,372,549	11,627,309	(1,110,729)	212,889,129
General plant	3-50	80,505,923	6,738,158	(512,644)	86,731,437
Total utility plant in service		539,854,487	24,767,368	(1,623,373)	562,998,482
Accumulated depreciation		(286,258,018)	(14,352,624)	1,900,616	(298,710,026)
Property held for future use		2,802,783	-	(2,013,611)	789,172
Construction work in progress		40,608,490	47,515,821	(27,291,917)	60,832,394
Net utility plant		<u>\$ 297,007,742</u>	<u>\$ 57,930,565</u>	<u>\$ (29,028,285)</u>	<u>\$ 325,910,022</u>

Water Utility Plant

	Depreciable Life -Years	Balance at December 31, 2008	Increases	Decreases	Balance at December 31, 2009
Land		\$ 807,946	\$ 621,425	\$ -	\$ 1,429,371
Structure	50	26,623,813	125,636	-	26,749,449
Pumping	20	7,611,036	373,326	-	7,984,362
Purification	25	1,252,909	-	-	1,252,909
Transmission	28.5	17,250,570	28,493	-	17,279,063
Reservoirs	50	17,026,504	3,455,596	-	20,482,100
Distribution	28.5	38,829,386	5,314,652	-	44,144,038
Services, meters and hydrants	20-28.5	14,632,958	907,080	(71,636)	15,468,402
General plant	3-50	6,746,876	1,701,315	(67,393)	8,380,798
Total utility plant in service		130,781,998	12,527,523	(139,029)	143,170,492
Accumulated depreciation		(72,966,529)	(3,329,891)	139,029	(76,157,391)
Property held for future use		989,578	-	-	989,578
Construction work in progress		16,646,566	15,610,339	(11,109,017)	21,147,888
Net utility plant		<u>\$ 75,451,613</u>	<u>\$ 24,807,971</u>	<u>\$ (11,109,017)</u>	<u>\$ 89,150,567</u>

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Note 4 - Utility plant, continued)

Contributed Capital

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

Note 5 - Cash and investments

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

Restricted Cash and Investments

- **Customer deposit reserve** - Used to account for deposits collected from retail customers and held for future refund or application to customer account balances.
- **Construction funds** - Used to account for legally restricted cash and investments for the purpose of construction of capital projects. Funds include proceeds from the issuance of bonds and contributions from customers or contractors for construction projects.
- **System development charge reserves** - Used to account for charges assessed and collected in conjunction with installation of new water services in the Water System and are restricted by State of Oregon Statutes to system enhancements and other related capital expenditures.
- **Debt service reserve** - Deposits held for debt service coverage pursuant to bond indentures and in lieu of, or replacing, bond sureties.
- **Investments for bond principal and interest** - Used to account for cash and investments which are restricted by Bond Indentures of Trust for future payment of principal and interest on debt.

Designated Cash and Investments

- **Purchased power reserve** - Used to account for cash and investments which the Board has designated to reserve for fluctuations in purchased power costs.
- **Capital improvement reserve** - Used to account for cash and investments which the Board has designated to reserve for capital improvements.
- **Carmen-Smith reserve** - Used to account for cash and investments which the Board has designated to reserve for relicensing and construction costs at the Carmen-Smith Hydroelectric Project.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

- **Operating reserve** - Used to account for cash and investments which the Board has designated to maintain balances in the general account within target levels for payments of emergency operating costs and self-insured claims.
- **Pension and medical reserve** - Used to account for cash and investments which the Board has designated to reserve for pension and post-retirement medical costs.

Deposits with financial institutions are comprised of bank demand deposits and savings accounts. The total bank balances, as recorded in bank records at December 31, 2009, were \$10.5 million. Of the bank balances, \$500,000 were covered by federal depository insurance and \$10 million were collateralized with securities.

Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, a depositor will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits not covered by depository insurance are exposed to custodial credit risk when collateral for deposits is held by the pledging institution or its trust department or agency, but not in the name of the depositor. According to the Board's investment policy, securities are held by the pledging financial institution but not in the Board's name.

The Board's investments during the year, which included obligations of the U.S. Government, are authorized by State of Oregon Statutes and bond resolutions. As of December 31, 2009, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	AA	\$ 34,160,484	0.562	20.5%
U.S. Agency Securities				
FHLB		44,828,022		
FHLMC		37,776,444		
FNMA		30,786,514		
FFCB		13,253,717		
Other		5,926,939		
Subtotal US Agency	AAA	132,571,636	0.991	79.5%
Total		\$ 166,732,120	0.903	100%

Concentration risk is the risk that when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. With the exception of pass-through funds, the maximum amount of pooled investments to be placed in the Local Government Investment Pool is limited by Oregon Revised Statute 294.810 to \$42.5 million as of December 31, 2009.

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

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Note 5 – Cash and investments, continued)

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

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

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the aforementioned investments, except for the investments in the Local Government Investment Pool, which are not evidenced by securities, are held in the Board's name by a third-party custodian.

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

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Cash and investments consisted of the following:

				2009	2008
	Restricted Cash and Investments	Cash and Cash Equivalents and Short-term investments	Designated Funds	Total Carrying Amount	Total Carrying Amount
ELECTRIC SYSTEM					
Cash on hand	\$ -	\$ 11,500	\$ -	\$ 11,500	\$ 11,497
Cash in bank	2,304	50,434	2,424,580	2,477,318	2,398,756
Investments in the State of Oregon local government investment pool	3,319,764	814,194	16,829,521	20,963,479	23,487,010
Investments - US Agencies	46,406,604	20,876,617	62,658,833	129,942,054	136,532,306
Total electric system	49,728,672	21,752,745	81,912,934	153,394,351	162,429,569
WATER SYSTEM					
Cash in bank	-	355,896	-	355,896	876,137
Investments in the State of Oregon local government investment pool	3,208,893	1,551,004	8,437,108	13,197,005	11,790,164
Investments - US Agencies	2,629,582	-	-	2,629,582	12,924,472
Total water system	5,838,475	1,906,900	8,437,108	16,182,483	25,590,773
	\$ 55,567,147	\$ 23,659,645	\$ 90,350,042	\$ 169,576,834	\$ 188,020,342

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Note 6 - Receivables

Significant receivables were as follows.

	2009		2008	
	Electric System	Water System	Electric System	Water System
<u>Current receivables</u>				
Accounts receivable	\$ 30,292,237	\$ 1,754,789	\$ 30,883,541	\$ 1,581,294
Allowance for doubtful accounts	(164,061)	(19,628)	(165,279)	(15,707)
Net accounts receivable	30,128,176	1,735,161	30,718,262	1,565,587
Conservation loans to customers	2,147,340	-	2,914,220	-
Interest receivable	778,028	-	994,976	150,723
Miscellaneous receivables	307,574	35,824	59,201	63,405
Insurance settlement	-	-	1,000,000	-
Mutual aid storm labor	-	-	245,000	-
Note receivable (Bonneville Power Administration)	213,763	-	225,093	-
Reimbursement receivable - Harvest Wind	589,984	-	-	-
Renewable Energy Production Incentive (REPI)	-	-	55,524	-
Receivables, less allowances	<u>\$ 34,164,865</u>	<u>\$ 1,770,985</u>	<u>\$ 36,212,276</u>	<u>\$ 1,779,715</u>
<u>Long-term receivables</u>				
Conservation loans to customers	\$ 3,090,119		\$ 3,670,414	
Note receivable (Bonneville Power Administration)	751,508		965,270	
Interest receivable (WGA)	<u>600,108</u>		<u>395,615</u>	
Long-term receivables, conservation and other	<u>\$ 4,441,735</u>		<u>\$ 5,031,299</u>	

Note 7 - Payables

Current payables were as follows.

	2009		2008	
	Electric System	Water System	Electric System	Water System
Accounts payable	\$ 19,684,157	\$ 568,865	\$ 20,357,992	\$ 419,009
Construction payables	3,538,702	397,246	2,247,026	662,420
Contributions in lieu of taxes	1,300,348	-	1,276,688	-
Customer deposits	2,547,808	-	3,115,783	-
Miscellaneous payables	1,986,023	374,062	2,157,594	337,632
Preliminary investigations payables	285,663	-	162,373	-
Total payables	<u>\$ 29,342,701</u>	<u>\$ 1,340,173</u>	<u>\$ 29,317,456</u>	<u>\$ 1,419,061</u>

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Note 8 – Short Term Borrowing (Line of Credit)

As of December 31, 2009, the Board had a taxable non-revolving junior lien line of credit at Bank of America with a maximum borrowing of \$46.3 million, expiring May 27, 2010 for the Harvest Wind Project. During the term of the agreement, the Board can borrow at the LIBOR fixed or floating rate plus 1.20%, subject to a floor of 1.95%. At December 31, 2009, the Board had \$43 million outstanding.

Note 9 - Other deferred charges and other liabilities

Other deferred charges and other liabilities were as follows.

	2009		2008	
	Electric System	Water System	Electric System	Water System
Other deferred charges				
Unamortized bond expense	\$ 3,021,719	\$ 864,246	\$ 2,960,494	\$ 936,459
Joint-use equipment	100,686	43,299	585,285	249,952
Lease prepayment	-	203,474	-	396,897
Fair value of renewable energy certificates	1,361,073	-	356,286	-
Prepaid transmission expense - Harvest Wind	1,941,493			
Unamortized organizational costs - Harvest Wind	163,549			
Regulatory assets				
Sick leave - upon retirement	1,238,677	271,904	1,305,789	286,637
Net pension obligation - supplemental retirement plan	737,937	161,986	853,959	139,017
Accreted interest - capital appreciation bonds	3,128,439	-	2,637,887	-
Other deferred charges	<u>\$ 11,693,573</u>	<u>\$ 1,544,909</u>	<u>\$ 8,699,700</u>	<u>\$ 2,008,962</u>
Other liabilities				
Unearned rent revenue	\$ 396,897	\$ -	\$ 595,346	\$ -
Environmental clean up	254,000	-	480,000	-
Member deposits - Public Agency Network	217,872	-	147,681	-
Miscellaneous	14,245	-	14,245	57,828
Fair value of renewable energy certificates	1,361,073	-	356,286	-
Regulatory liabilities				
Sick leave - upon retirement	1,238,677	271,905	1,305,789	286,637
Net pension obligation - supplemental retirement plan	<u>737,937</u>	<u>161,986</u>	<u>853,959</u>	<u>139,017</u>
Other liabilities	<u>\$ 4,220,701</u>	<u>\$ 433,891</u>	<u>\$ 3,753,306</u>	<u>\$ 483,482</u>

Note 10 - Investment in WGA/deferred credit - WGA

The Board is a party to an Intergovernmental Agency, which is governed equally by the Board and Clatskanie PUD. The Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling \$15.1 million, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. In October 2006, the Agency accomplished a refunding of its debt, which allowed the Board to be repaid a significant portion of its remaining equity investment (\$10.4 million was repaid in 2006). The balance of the original investment at December 31, 2006 was \$2.2 million, and it remained the same at the end of 2009. Repayment of the equity investment is not due until the Agency's Series C 2006 debt is paid off, and as it is further contingent upon the successful operation of the Project, it is not guaranteed. Should the Project fail to generate sufficient revenues, the repayment of the equity contribution may occur only in part or not at all. At December 31, 2009, the Board had a receivable in the amount of \$600,000 (\$396,000 at December 31, 2008) for cumulative preferred dividend on the remaining equity investment; revenue is included with investment earnings.

The investment in Western Generation Agency consists of the balance of the initial equity contribution, 50% of the Agency's net income and losses, and distributions from excess cash. Because the Project Agreements allow distributions in excess of the Agency's equity, the investment at December 31, 2009 was a negative balance of \$756,000 (\$1.1 million at December 31, 2008) reflected as a deferred credit on the Board's Balance Sheets. Under bond agreements, distributions to the Board are limited to \$400,000 per year. During 2009 distributions of \$400,000 were received (and \$400,000 was received in 2008).

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

Note 11 - Investment in Harvest Wind

The Board is a party to a Joint Ownership Agreement (JOA), whereby the Board made an equity investment in the Harvest Wind Project (the Project) a 98.9 megawatt wind generating facility located in Klickitat County, WA. The Board's ownership share of Harvest Wind is 20%. Other owners are Peninsula Light Co., 20%, Cowlitz PUD, 30%, and Lakeview Light & Power, also 30%.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

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

The investment in Harvest Wind consists of the Board's share of the costs to develop the Project, 20% of the Project's net income and losses, and any preferred distributions. No distributions were received in 2009. Commercial operations began on December 15, 2009.

At December 31, 2009, the Board recognized investment in Harvest Wind of \$41.6 million (\$0 at December 31, 2008) including an estimated loss of \$95,000 (\$0 in 2008). At December 31, 2008, prior to the election to incorporate, the Board had recorded \$9.2 million as a preliminary investigation.

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

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

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

Note 12 - Long-term debt

Long-term portion of bonds payable was as follows.

	2009	2008
Electric Utility System Revenue and Refunding Bonds		
1997 Series, 10-1-97 issue, Serial Bonds 4.80% - 5.00%, due 2010-2011	\$ 1,420,000	\$ 2,775,000
1998 Series A, 11-15-98 issue		
Term Bonds, 6.22% - 6.85%, due 2010-2023	8,745,000	9,165,000
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2010-2022	23,855,000	24,500,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556	4,067,556
2001 Series B, 11-15-01 issue		
Serial Bonds, 4.00% - 5.25%, due 2010-2022	15,205,000	16,130,000
Term bonds, 5.00%, due 2023-2031	19,140,000	19,140,000
2002 Series A, 5-7-02 issue		
Serial Bonds 5.25%, due 2010-2011	1,670,000	3,245,000
2002 Series B, 6-1-02 issue		
Serial bonds 5.70% - 5.90%, due 2010-2012	2,910,000	4,245,000
2002 Series C, 6-1-02 issue		
Serial Bonds 3.90% - 5.00%, due 2010-2022	8,865,000	9,415,000
2003 Series, 6-10-03 issue		
Serial Bonds 3.00% - 5.00%, due 2010-2023	32,215,000	34,105,000
2005 Series, 5-10-05 issue		
Serial Bonds, 3.75% - 5.0%, due 2010-2020	5,155,000	5,560,000
Term bonds, 4.50%, due 2021 & 2025	3,530,000	3,530,000
2006 Series, 8-24-06 issue		
Serial Bonds 4.00% - 4.50%, due 2010-2026	11,095,000	11,565,000
2008 Series, Revenue, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2010-2028	34,860,000	36,180,000
Term bonds, 5.00%, due 2029-2033	15,995,000	15,995,000
2008 Series, Revenue Refunding, 7-17-08 issue		
Serial Bonds 4.00% - 5.00%, due 2010-2022	29,785,000	30,505,000
	218,512,556	230,122,556
Add unamortized premium	3,671,357	4,112,552
Add accreted interest	3,128,439	2,637,887
Less unamortized refunding costs	(1,197,470)	(1,387,512)
Less unamortized discount	(228,077)	(266,362)
Electric System bonds payable	\$ 223,886,805	\$ 235,219,121

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Water Utility System Revenue and Refunding Bonds		
2000 Series, 6-1-00 issue, Serial Bonds 5.30%, due 2010	\$ -	\$ 520,000
2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%, due 2010-2022	8,075,000	8,580,000
2005 Series, 8-16-05 issue		
Serial Bonds, 3.50% - 5.00%, due 2011-2025	8,360,000	8,360,000
Term bonds, 4.35%, due 2030	4,180,000	4,180,000
2008 Series, 7-17-08 issue		
Serial Bonds, 4.00% - 5.00%, due 2010-2026	6,330,000	6,600,000
Term bonds, 4.50% - 5.25%, due 2027-2038	8,755,000	8,755,000
Note payable - Electric		
11-15-01 issue, 6.32% - 7.21%, due 2010-2027	<u>3,454,611</u>	<u>3,661,888</u>
	39,154,611	40,656,888
Add unamortized premium	185,998	199,571
Less unamortized discount	(125,227)	(137,626)
Less unamortized refunding costs	<u>(1,185,675)</u>	<u>(1,273,469)</u>
Water System bonds and note payable	<u>38,029,707</u>	<u>39,445,364</u>
Total long-term portion of debt	261,916,512	274,664,485
Less inter-system payable	<u>3,454,611</u>	<u>3,661,888</u>
Total Systems long-term debt, bonds payable	<u>\$ 258,461,901</u>	<u>\$ 271,002,597</u>

The carrying amount and fair value of current and long-term debt was as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Electric System	\$ 235,496,805	\$ 244,735,380	\$ 245,999,121	\$ 257,069,571
Water System	<u>35,870,096</u>	<u>38,880,359</u>	<u>37,008,476</u>	<u>39,564,275</u>
Total bonds payable	<u>\$ 271,366,901</u>	<u>\$ 283,615,739</u>	<u>\$ 283,007,597</u>	<u>\$ 296,633,846</u>

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Note 12 - Long-term debt, continued)

The schedule of maturities for principal and interest is as follows:

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2010	\$ 11,610,000	\$ 11,424,509	\$ 1,295,000	\$ 1,646,794
2011	12,345,000	10,898,120	1,225,000	1,589,409
2012	9,895,000	10,309,459	1,270,000	1,543,159
2013	8,990,000	9,849,768	1,325,000	1,494,396
2014	10,050,000	9,409,228	1,375,000	1,442,641
2015 - 2019	63,300,000	38,324,630	7,825,000	6,284,221
2020 - 2024	67,011,717	25,801,195	7,965,000	4,425,728
2025 - 2029	28,815,839	19,472,624	6,805,000	2,911,714
2030 - 2034	18,105,000	2,056,000	4,405,000	1,512,961
2035 - 2039	-	-	3,505,000	471,712
	<u>\$ 230,122,556</u>	<u>\$ 137,545,533</u>	<u>\$ 36,995,000</u>	<u>\$ 23,322,735</u>

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply. The principal and interest requirements are reflected in the supplementary schedule "Long-Term Bonded Debt and Interest Payment Requirements." To comply with sinking fund deposit requirements, the Board deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1. At December 31, 2009 and 2008, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

In July 2008 the Board issued \$53.3 million in Electric Utility Revenue Serial and Term Bonds with interest rates from 4.00% to 5.00%, maturing through 2033, with an effective yield of 4.83%, for the Roosevelt Operations Center; and \$31.1 million in Electric Utility Revenue Bonds refunding the Series 1998 Electric Revenue Refunding Bonds, with interest rates from 4.00% to 5.00%, maturing through 2022, with an effective yield of 4.47%, a net difference in aggregate debt service between refunding and refunded debt of \$1.7 million, and a net economic gain of \$1.2 million. Also in July 2008 the Board issued \$15.6 million in Water Utility Revenue Serial and Term bonds with interest from 4.50% to 5.05%, maturing through 2038, with an effective yield of 4.93%, for various capital projects.

As of December 31, 2009, the amount of defeased debt still outstanding but removed from the Board's long-term debt amounted to \$19.5 million for the Water System. The refunded bonds constitute a contingent liability of the Board only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the financial statements because the likelihood of additional funding requirements is considered remote.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

Long-term debt activity for the year ended was as follows:

	Outstanding January 1, 2009	Issued During Year	Redeemed During Year	Outstanding December 31, 2009
Electric Revenue Bonds, with interest rates from 3.0% to 6.85%, maturing through 2033 (original issue \$267,005,000)	\$ 126,085,000	\$ -	\$ (4,575,000)	\$ 121,510,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue \$158,245,000)	85,740,000	-	(5,695,000)	80,045,000
Electric Revenue Current Interest Bonds, with interest rate of 6.32%, maturing through 2027 (original issue \$29,997,556)	29,077,556	-	(510,000)	28,567,556
Total Electric System	240,902,556	-	(10,780,000)	230,122,556
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2030 (original issue \$19,155,000)	12,540,000	-	-	12,540,000
Water Revenue Bonds, with interest rates from 2.75% to 5.30%, maturing through 2038 (original issue \$47,000,000)	25,680,000	-	(1,225,000)	24,455,000
Total Water System	38,220,000	-	(1,225,000)	36,995,000
Total bonded debt	\$ 279,122,556	\$ -	\$ (12,005,000)	\$ 267,117,556

Note 13 - Power supply resources

Bonneville Power Administration

- **Bonneville Power Contracts**

The Board has a power contract with Bonneville for the purchase of power equal to its full federal entitlement running from October 1, 2001 through September 30, 2011. The amount is equal to approximately three quarters of the Board's current retail load. The Board selected a combination of both "Block" and "Slice of System" power products from those offered by Bonneville. Each component provides attributes that add different kinds of flexibility to the Board's power portfolio. The "Block" product provides a fixed quantity of power to EWEB that varies according to a monthly annual schedule and adjustments for conservation. Block deliveries were approximately 118 aMW in 2009 and 2008. The "Slice" product consists of a 2.4% Slice share of Bonneville's Federal Base System generation. The annual share remains fixed and will not be adjusted to reflect increases or decreases in a customer's net requirements or individual resources during the term of the contract. The Board's percentage share also will not be adjusted to reflect increases or decreases in the output of the Slice System. However, the amount of actual power received under the Slice Product contract will vary with the performance of the federal based system. In years of heavy water flow, the Board may have rights to power that may be in excess of their needs, and in poor water years the Board would need to augment its share of Slice output with their own generation or market purchases. In December of 2008, the Board entered into agreements with Bonneville for Block and Slice running from October 1, 2011 through September 30, 2028. The amount of power the Board will be entitled to under these contracts will be determined based on the Board's actual load during the period between October 1, 2009 and September 30, 2010, with some adjustments specified in Bonneville's Tiered Rate Methodology.

- **Bonneville Transmission Contract**

In 2001, the Board signed the Network Integration Transmission Service (NT) contract with Bonneville to provide transmission for the Board's generation projects and Bonneville power contracts. The current contract term extends through December 31, 2011.

EWEB-Owned Resources

- **Carmen-Smith and Trailbridge Hydroelectric Project**
EWEB owns and operates the Carmen-Smith Hydroelectric Project (Carmen-Smith Project) within the McKenzie River basin. The Carmen-Smith Project includes the Carmen Power House with two generating units with a nameplate capacity of 52 MW each. The Carmen-Smith Project also includes the Trail Bridge re-regulating facility, with an additional generating unit with a nameplate capacity of 10 MW. The operating license for the Carmen-Smith Project expired on November 30, 2008. The Board submitted an application to relicense the facility to FERC on November 30, 2006. The Board received, and will continue to receive, an annual operating license from FERC until a decision is made regarding a new license. In October of 2008, the Board entered into a settlement agreement with sixteen interested governmental, tribal and non-governmental parties, and submitted an Offer of Settlement to FERC to supplement the license application. The Settlement Agreement provides recommendations for measures that address the resources affected by the continued operation of the Project. The current FERC timeline projects that a final license for the Carmen-Smith Project will be issued in January of 2011.
- **International Paper Industrial Energy Center Cogeneration Project**
The Board and International Paper Company jointly operate a cogeneration facility at the International Paper Springfield plant. The unit, which has a nameplate capacity of 51.2 MW (average output is approximately 20 MW), is owned by the Board, with International Paper providing operation and fuel. Under terms of the current agreement (which expires in 2015), the project costs and output for this unit are shared equally by the parties.
- **Leaburg-Waltermville Hydroelectric Project**
The Board also owns and operates the Leaburg-Waltermville Hydroelectric Project (L-W Project) on the McKenzie River in Lane County, Oregon. The L-W Project is comprised of two facilities located at different points on the McKenzie River. The Leaburg facility includes a diversion dam on the McKenzie River, a canal and two generating units with a combined nameplate capacity of 15.5 MW. The Waltermville facility includes a canal that diverts water from the McKenzie River and one generating unit with a nameplate capacity of 9 MW. In 2001, FERC granted the Board a new hydroelectric license for the L-W Project. The new license is for a term of 40 years.
- **Stone Creek Hydroelectric Project**
The Stone Creek Project has one turbine with a peak capability of 12 MW. The facilities are on the Clackamas River approximately 45 miles southeast of Portland. The project is a run-of-the-river development located between two hydroelectric facilities that are owned and operated by PGE. The facility is operated and maintained under contract with PGE, and is licensed through 2038.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

(EWEB-owned resources, continued)

- **Smith Creek Hydroelectric Project**

The Smith Creek project is a run-of-the-river hydroelectric project on Smith Creek, a tributary of the Kootenai River in Northern Idaho. It is comprised of three units with a combined nameplate capacity of 36 MW. In April 2001, the Board took ownership of the project, which is licensed through 2037.

- **Foote Creek I Wind Project**

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

- **Harvest Wind Project**

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

Contract Resources

- **Priest Rapids and Wanapum Hydroelectric Projects**

Historically, the Board had contracts with Public Utility District No. 2 of Grant County, Washington (Grant County PUD) for a percentage share of the output of the Priest Rapids Project and the Wanapum Project, two large hydroelectric projects on the Columbia River in Washington. A new power purchase contract with Grant County PUD went into effect November 1, 2005. Under this contract, EWEB will continue to purchase power from Grant County PUD, but the volume of that power will diminish over time as Grant County PUD's load grows. Starting October 1, 2011, the Board will no longer purchase significant amounts of power from Grant County PUD, however, the Board's entitlement from Bonneville will be adjusted to compensate for the decrease in resources.

- **Stateline Wind Project**

In 2002, the Board agreed to purchase 25 MW from Phase 1 of the Stateline Wind Project located in Walla Walla County, Washington and Umatilla County, Oregon. The contract for this power expires on December 31, 2026.

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

- **Klondike III Wind Project**

The Board has agreed to purchase 25 MW from Phase 3 of the Klondike Wind project located near the town of Wasco in Sherman County, Oregon. The project consists of 200 wind turbines with total generating capacity of about 375 MW. The Board's 25 MW share translates to about 6.7% of total plant capability. The contract for this power expires on October 31, 2027.

Note 14 - Retirement benefits

1. Pension Plan

Plan Description

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

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

Funding Policy

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

In November of 2006, the Board elected to make a lump-sum payment to OPERS of \$7.2 million which lowered the employer contribution rate and OPERS allocated to a "side account" which is tracked separately for rate purposes. The Board's average contribution rate is 16.81% of covered payroll. In December 2001, the Board elected to make a lump-sum payment of approximately \$29.6 million, which had the effect of lowering the employer contribution rate. The lump-sum payment is recorded as an Other Asset and is being amortized over the funding period of 26 years. The amortization was \$1.2 million for 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Note 14 - Retirement benefits, continued)

Annual Pension Cost

Because all participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are currently calculated in conformance with the parameters of GASB No. 27, *Accounting for Pensions by State and Local Government Employers*, there is no net pension obligation to report, and annual required contributions are equal to the annual pension cost. The Board's annual pension cost of \$9.3 million for OPERS was equal to the Board's required and actual contributions.

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/07	\$ 9,038,000	100%	\$0
12/31/08	\$ 9,522,000	100%	\$0
12/31/09	\$ 9,337,000	100%	\$0

The required contribution was determined as part of the December 31, 2007, actuarial valuation using the projected unit credit method. The actuarial assumptions as of the valuation December 31, 2008 included (a) 8% investment rate of return (b) projected salary increases of 3.75% per year, and (c) 2% per year for cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the assets was determined by the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of combined valuation payroll over a rolling three-year period for a change in valuation method begun 2004 and the remainder over a closed period from the valuation date through December 31, 2027.

Funding Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the plan was 67% funded. The actuarial accrued liability for benefits was \$281 million, and the actuarial value of assets was \$189 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$92 million. The covered payroll (annual payroll of active employees covered by the plan) was \$35.7 million, and the ratio of the UAAL to the covered payroll was 260%. The 2008 valuation is advisory and does not affect employer contribution rates. Rates effective July 1, 2011 through June 2013 will be calculated in the December 31, 2009 actuarial valuation expected to be completed in the fall of 2010. Employer rates are expected to increase by 6% of payroll in 2011 based on lower than expected investment returns in previous years.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/06	\$ 245,867,252	\$ 273,110,696	\$ 27,243,444	90%	\$ 32,956,073	83%
12/31/07	\$ 257,453,956	\$ 278,160,157	\$ 20,706,201	93%	\$ 34,788,039	60%
12/31/08	\$ 188,893,782	\$ 281,553,582	\$ 92,659,800	67%	\$ 35,686,738	260%

2. The Supplemental Retirement Plan

Plan Description

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

Funding Policy

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

Annual Pension Cost

Employer contributions are calculated and made in conformity with the parameters of GASB No. 27. The Board's annual pension cost is based upon its latest actuarial report, dated January 1, 2009, with the next actuarial valuation for the year ended December 31, 2010 scheduled to be completed during 2011.

The Board's pension liability and the annual required contribution rate were determined as part of the January 1, 2009 actuarial valuation using the unit credit method. The unfunded actuarial accrued liability is amortized as a level percentage of projected annual payroll on an open basis over a 10-year period.

The actuarial assumptions include a rate of return on investment of present and future assets of 6.25% per year, cost-of-living adjustments of 2.0% per year for postretirement benefits and 1983 Group Annuity Mortality rate.

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Annual pension cost, continued)

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

Annual required contribution (ARC)	\$ 328,329
Interest on net pension obligation	62,061
Adjustment to ARC	<u>(123,443)</u>
Annual pension cost	266,947
Contributions made	<u>360,000</u>
Increase (decrease) in net pension obligation	(93,053)
Net pension obligation beginning of the year	<u>992,976</u>
Net pension obligation end of the year	<u>\$ 899,923</u>

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/05	\$ 364,557	136%	\$ 1,179,875
12/31/07	\$ 272,544	120%	\$ 992,976
12/31/08	\$ 266,947	135%	\$ 899,923

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 6.7% funded. The actuarial accrued liability for benefits was \$2.4 million, and the actuarial value of assets was \$161,300, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.2 million. The Board has designated funds of \$2.4 million to fund the supplemental retirement plan. Since the pension plan is a closed plan and funds are designated to fund remaining UAAL, the Board continues to fund the plan on a pay-as-you-go basis of approximately \$360,000 a year. The actuarial value of assets represents the market value of investments using recognized pricing services.

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
1/1/07	\$ 220,440	\$ 2,687,112	\$ 2,466,672	8.2%
1/1/08	\$ 112,200	\$ 2,500,363	\$ 2,388,163	4.5%
1/1/09	\$ 161,317	\$ 2,393,643	\$ 2,232,326	6.7%

3. Post Employment Benefits Plan Other than Pensions

Plan Description

In addition to pension benefits, the Board provides post employment health care and life insurance benefits to all employees who retire under OPERS or OPSRP with at least 11 years of service. It is a single-employer defined benefit plan. Currently, 426 retirees or surviving spouses of retired employees and 503 active employees are covered under the plan. The life insurance benefit is a fixed amount of \$5,000 per retiree. Health care coverage reimburses 80% of the amount of validated claims for certain medical, dental, vision and hospitalization costs. In 2007 the Board created the Eugene Water & Electric Board Retirement Benefits Trust for other post employment benefits (OPEB) other than pensions. The OPEB trust issues a publicly available set of audited financial statements that can be obtained by writing to the Board.

Funding Policy

The contribution requirements of plan participants are established by the Board and may be amended from time to time. Contributions by the plan participants are based on either a flat rate or a percentage of the premium cost and vary by participant according to years of service, year of retirement, age, and/or plan coverage. In December of 2007, the Board deposited \$8.2 million into the OPEB trust to begin funding the trust. It is the Board's intent to pay the actuarially determined OPEB cost annually to the trust. In 2009 the Board contributed \$2.9 million into the plan.

Annual OPEB Cost

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

The ARC represents level funding, that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed twenty years. The Board's ARC of \$2.9 million was equal to the Board's contribution. Therefore, as of year-end, the Board did not have an OPEB obligation (liability).

Other actuarial assumptions include a rate of return on investments of present and future assets of 7% and 10% annual rate increase in the per capita cost of covered health care benefits for 2009. The health care benefit rate is assumed to decrease gradually to 6% in the year 2017 and remain level thereafter. The salary scale assumption is 4.5% and the payroll growth rate is 4%.

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

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Annual OPEB cost, continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the preceding years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/07	\$ 2,898,304	100%	\$0
12/31/08	\$ 2,848,678	100%	\$0
12/31/09	\$ 2,935,311	100%	\$0

Funding Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 28% funded. The actuarial accrued liability for benefits was \$35.2 million, and the actuarial value of assets was \$7.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$27.5 million.

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/07	\$ 4,423,198	\$ 29,051,340	\$ 24,628,142	15%	\$ 31,425,822	78%
10/1/08	\$ 8,243,372	\$ 34,051,732	\$ 25,808,360	24%	\$ 34,788,039	74%
1/1/09	\$ 7,727,719	\$ 35,224,929	\$ 27,497,210	22%	\$ 35,686,738	77%

Actuarial valuations on an ongoing plan involve estimates of the value reported and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Note 15 - Deferred compensation

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

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

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

Note 16 - Trojan Nuclear Plant

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

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

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

NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2009 and 2008

(Note 16 - Trojan nuclear plant, continued)

A summary of the balance sheets for EWEB's share of the Trojan Project as of December 31, 2009 and 2008 is as follows:

	Unaudited 2009	Audited 2008
<u>Assets</u>		
Current assets	\$ 2,537,472	\$ 3,747,736
Long-term receivable, BPA, net	42,162,119	41,948,517
Total assets	\$ 44,699,591	\$ 45,696,253
<u>Liabilities</u>		
Current liabilities	\$ 1,128,454	\$ 1,234,863
Accumulated provision for decommissioning costs	43,571,137	44,461,390
Total liabilities	\$ 44,699,591	\$ 45,696,253

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

Note 17 - Commitments and contingencies

Roosevelt Operations Center

The Board broke ground in 2008 for a new operations center to house much of its electric and water staff, equipment, and yard operations. Contractual commitments for construction were \$49.7 million at December 31, 2009 (\$59.8 million at December 31, 2008).

Electric Projects

- **Transmission and Distribution**

Commitments for substation and transmission improvements were \$7.7 million at December 31, 2009 (\$3.2 million for the Willamette Substation at December 31, 2008).

- **Carmen-Smith Relicensing**

Commitments for preconstruction costs to relicense the Carmen Smith Project, were \$11.2 million for engineering services and preconstruction road, bridge and communications work (\$590,000 at December 31, 2008 for services to reach a settlement agreement submitted to FERC).

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

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

Water Projects

Contractual commitments for reservoir and pump station improvements were \$1.0 million at December 31, 2009, and \$7.5 million at December 31, 2008 for expansion of the Hayden Bridge filtration plant.

Self-Insurance

The Board is exposed to various risks of loss because of the Board's self-insurance retention, up to the first \$1,000,000 of exposure, per occurrence. Excess liability coverage protects the Board after the Board's self-insured limit is exhausted. However, public entities are also protected under State of Oregon tort limits ORS 30.260 – 30.300, which greatly reduces the cost of any single exposure to \$500,000. Consequently, except in extreme cases, the Board's exposure is mitigated by law. The limit is subject to change by State of Oregon legislation.

Claims liabilities recorded in the basic financial statements are based on the estimated ultimate loss as of the balance sheet date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported claims. Non-incremental claims adjustment costs such as salaries are not included in the claims estimates. At December 31, 2009, a total claims liability of approximately \$923,000 is reported in the basic financial statements. All prior and current-year claim liabilities were fully reserved and have not been discounted.

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2007	General liability	\$ 817,425	\$ (242,837)	\$ (184,092)	\$ 390,496
2008	General liability	\$ 390,496	\$ 699,938	\$ (141,434)	\$ 949,000
2009	General liability	\$ 949,000	\$ 150,262	\$ (176,262)	\$ 923,000

Claims and Other Legal Proceedings

The Board is involved in various 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, 2009.

Note 18 - Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Board recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet.

The Board has evaluated subsequent events through March 16, 2010, which is the date the financial statements were issued. There were no subsequent events to recognize in the financial statements.

Supplemental Information

ELECTRIC SYSTEM

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2009

	Refunding Revenue Bonds 1997 Series 11-4-97		Revenue Bonds 1998 Series A 11-15-98		2001A Series Curent Interest 11-15-01	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 1,355,000	\$ 137,395	\$ 420,000	\$ 612,777	\$ 645,000	\$ 1,548,400
2011	1,420,000	71,000	450,000	586,653	790,000	1,507,636
2012	-	-	475,000	558,663	950,000	1,457,708
2013	-	-	505,000	529,118	1,125,000	1,397,668
2014	-	-	535,000	497,707	1,310,000	1,326,568
2015	-	-	570,000	464,430	1,520,000	1,243,776
2016	-	-	610,000	425,385	1,745,000	1,147,712
2017	-	-	650,000	383,600	1,990,000	1,037,428
2018	-	-	695,000	339,075	2,255,000	911,660
2019	-	-	740,000	291,468	2,545,000	769,144
2020	-	-	795,000	240,778	2,860,000	608,300
2021	-	-	850,000	186,320	3,200,000	427,548
2022	-	-	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	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	<u>2,775,000</u>	<u>208,395</u>	<u>9,165,000</u>	<u>5,310,168</u>	<u>28,567,556</u>	<u>31,186,300</u>
Less current	<u>1,355,000</u>	<u>-</u>	<u>420,000</u>	<u>-</u>	<u>645,000</u>	<u>-</u>
	<u>\$ 1,420,000</u>	<u>\$ 208,395</u>	<u>\$ 8,745,000</u>	<u>\$ 5,310,168</u>	<u>\$ 27,922,556</u>	<u>\$ 31,186,300</u>

ELECTRIC SYSTEM

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2009

	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
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	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	35,270,000	23,971,917	3,245,000	258,038	4,245,000	508,307
Less Current	925,000	-	1,575,000	-	1,335,000	-
	<u>\$ 34,345,000</u>	<u>\$ 23,971,917</u>	<u>\$ 1,670,000</u>	<u>\$ 258,038</u>	<u>\$ 2,910,000</u>	<u>\$ 508,307</u>

ELECTRIC SYSTEM

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2009

	Revenue and Refunding 2002 C Series 5-22-02		Revenue and Refunding 2003 Series 6-10-03		Revenue 2005 Series 05-10-05	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 550,000	\$ 443,681	\$ 1,890,000	\$ 1,594,088	\$ 405,000	\$ 400,300
2011	575,000	420,994	1,950,000	1,537,387	420,000	384,100
2012	600,000	396,556	2,035,000	1,459,388	440,000	366,250
2013	620,000	370,756	2,125,000	1,377,987	460,000	347,550
2014	650,000	343,476	2,200,000	1,292,988	480,000	326,850
2015	680,000	314,226	2,315,000	1,182,987	500,000	305,250
2016	710,000	282,776	2,435,000	1,067,238	525,000	282,750
2017	740,000	249,051	2,565,000	945,487	550,000	256,500
2018	775,000	213,531	2,695,000	817,238	570,000	234,500
2019	815,000	175,750	2,835,000	682,487	595,000	210,275
2020	855,000	135,000	2,985,000	540,738	615,000	184,988
2021	900,000	92,250	3,140,000	391,487	645,000	158,850
2022	945,000	47,250	3,300,000	234,488	675,000	129,825
2023	-	-	1,635,000	69,488	705,000	99,450
2024	-	-	-	-	735,000	67,725
2025	-	-	-	-	770,000	34,650
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
	9,415,000	3,485,297	34,105,000	13,193,476	9,090,000	3,789,813
Less Current	550,000	-	1,890,000	-	405,000	-
	<u>\$ 8,865,000</u>	<u>\$ 3,485,297</u>	<u>\$ 32,215,000</u>	<u>\$ 13,193,476</u>	<u>\$ 8,685,000</u>	<u>\$ 3,789,813</u>

ELECTRIC SYSTEM

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2009

	Revenue 2006 Series 08-24-06		Revenue 2008 Series 7/17/08		Refunding 2008 Series 7/17/08		Total Electric System Payments		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ 470,000	\$ 481,651	\$ 1,320,000	\$ 2,519,375	\$ 720,000	\$ 1,499,950	\$ 11,610,000	\$ 11,424,509	\$ 23,034,509
2011	490,000	462,851	1,365,000	2,466,575	840,000	1,471,150	12,345,000	10,898,120	23,243,120
2012	510,000	440,801	1,420,000	2,411,975	970,000	1,437,550	9,895,000	10,309,459	20,204,459
2013	530,000	420,401	1,470,000	2,355,175	1,115,000	1,398,750	8,990,000	9,849,768	18,839,768
2014	550,000	399,201	1,540,000	2,281,675	1,690,000	1,343,000	10,050,000	9,409,228	19,459,228
2015	575,000	374,451	1,490,000	2,204,675	1,950,000	1,258,500	10,755,000	8,888,570	19,643,570
2016	600,000	348,576	1,565,000	2,130,175	2,235,000	1,161,000	11,640,000	8,325,250	19,965,250
2017	625,000	324,576	1,645,000	2,051,925	2,550,000	1,049,250	12,590,000	7,713,667	20,303,667
2018	655,000	299,576	1,725,000	1,969,675	2,895,000	921,750	13,610,000	7,055,918	20,665,918
2019	690,000	273,376	1,810,000	1,883,425	3,260,000	777,000	14,705,000	6,341,225	21,046,225
2020	720,000	245,776	1,905,000	1,792,925	3,650,000	614,000	15,875,000	5,566,518	21,441,518
2021	760,000	216,076	2,000,000	1,697,675	4,085,000	431,500	17,145,000	4,727,494	21,872,494
2022	795,000	184,726	2,095,000	1,597,675	4,545,000	227,250	18,475,000	3,818,242	22,293,242
2023	835,000	151,933	2,200,000	1,492,925	-	-	8,942,106	5,934,789	14,876,895
2024	875,000	116,863	2,300,000	1,393,925	-	-	6,574,611	5,754,152	12,328,763
2025	920,000	80,113	2,405,000	1,290,425	-	-	6,824,720	5,704,468	12,529,188
2026	965,000	41,013	2,520,000	1,176,188	-	-	6,284,579	5,640,872	11,925,451
2027	-	-	2,640,000	1,056,486	-	-	5,506,540	5,552,696	11,059,236
2028	-	-	2,765,000	931,088	-	-	4,980,000	1,408,338	6,388,338
2029	-	-	2,895,000	799,750	-	-	5,220,000	1,166,250	6,386,250
2030	-	-	3,040,000	655,000	-	-	5,480,000	905,250	6,385,250
2031	-	-	3,190,000	503,000	-	-	5,755,000	631,250	6,386,250
2032	-	-	3,350,000	343,500	-	-	3,350,000	343,500	3,693,500
2033	-	-	3,520,000	176,000	-	-	3,520,000	176,000	3,696,000
	11,565,000	4,861,960	52,175,000	37,181,212	30,505,000	13,590,650	230,122,556	137,545,533	367,668,089
Less Current	470,000	-	1,320,000	-	720,000	-	11,610,000	-	11,610,000
	<u>\$ 11,095,000</u>	<u>\$ 4,861,960</u>	<u>\$ 50,855,000</u>	<u>\$ 37,181,212</u>	<u>\$ 29,785,000</u>	<u>\$ 13,590,650</u>	<u>\$ 218,512,556</u>	<u>\$ 137,545,533</u>	<u>\$ 356,058,089</u>

WATER SYSTEM

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2009

	Revenue Bonds 2000 Series 1-1-00		Revenue Bonds 2002 Series 7-16-02	
	Principal	Interest	Principal	Interest
2010	\$ 520,000	\$ 27,560	\$ 505,000	\$ 362,839
2011	-	-	525,000	345,164
2012	-	-	545,000	326,264
2013	-	-	570,000	305,826
2014	-	-	595,000	283,596
2015	-	-	620,000	259,796
2016	-	-	645,000	234,221
2017	-	-	675,000	206,809
2018	-	-	710,000	178,121
2019	-	-	740,000	147,059
2020	-	-	780,000	113,759
2021	-	-	815,000	77,879
2022	-	-	855,000	40,185
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	-	-
2031	-	-	-	-
2032	-	-	-	-
2033	-	-	-	-
2034	-	-	-	-
2035	-	-	-	-
2036	-	-	-	-
2037	-	-	-	-
2038	-	-	-	-
	520,000	27,560	8,580,000	2,881,518
Less current	520,000	-	505,000	-
	<u>\$ -</u>	<u>\$ 27,560</u>	<u>\$ 8,075,000</u>	<u>\$ 2,881,518</u>

WATER SYSTEM

Long-term bonded debt and interest payment requirements, including current portion

Year ended December 31, 2009

	Revenue Bonds Refunding 2005 Series 7-26-05		Revenue Bonds 2008 Series 7/17/08		Total Water System Payments		
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2010	\$ -	\$ 532,455	\$ 270,000	\$ 723,940	\$ 1,295,000	\$ 1,646,794	\$ 2,941,794
2011	415,000	532,455	285,000	711,790	1,225,000	1,589,409	2,814,409
2012	430,000	517,930	295,000	698,965	1,270,000	1,543,159	2,813,159
2013	445,000	502,880	310,000	685,690	1,325,000	1,494,396	2,819,396
2014	460,000	487,305	320,000	671,740	1,375,000	1,442,641	2,817,641
2015	475,000	470,055	335,000	657,340	1,430,000	1,387,191	2,817,191
2016	500,000	451,055	350,000	642,600	1,495,000	1,327,876	2,822,876
2017	520,000	426,055	365,000	627,550	1,560,000	1,260,414	2,820,414
2018	545,000	400,055	380,000	612,950	1,635,000	1,191,126	2,826,126
2019	570,000	372,805	395,000	597,750	1,705,000	1,117,614	2,822,614
2020	600,000	344,305	415,000	581,555	1,795,000	1,039,619	2,834,619
2021	630,000	320,305	430,000	564,125	1,875,000	962,309	2,837,309
2022	655,000	295,105	450,000	545,850	1,960,000	881,140	2,841,140
2023	675,000	268,905	465,000	526,725	1,140,000	795,630	1,935,630
2024	705,000	241,230	490,000	505,800	1,195,000	747,030	1,942,030
2025	735,000	212,149	510,000	483,750	1,245,000	695,899	1,940,899
2026	765,000	181,830	535,000	460,800	1,300,000	642,630	1,942,630
2027	800,000	148,552	560,000	436,725	1,360,000	585,277	1,945,277
2028	835,000	113,753	585,000	411,525	1,420,000	525,278	1,945,278
2029	870,000	77,430	610,000	385,200	1,480,000	462,630	1,942,630
2030	910,000	39,585	635,000	357,750	1,545,000	397,335	1,942,335
2031	-	-	665,000	329,175	665,000	329,175	994,175
2032	-	-	695,000	299,250	695,000	299,250	994,250
2033	-	-	730,000	262,763	730,000	262,763	992,763
2034	-	-	770,000	224,438	770,000	224,438	994,438
2035	-	-	810,000	184,013	810,000	184,013	994,013
2036	-	-	855,000	141,488	855,000	141,488	996,488
2037	-	-	895,000	96,600	895,000	96,600	991,600
2038	-	-	945,000	49,611	945,000	49,611	994,611
	12,540,000	6,936,199	15,355,000	13,477,458	36,995,000	23,322,735	60,317,735
Less current	-	-	270,000	-	1,295,000	-	1,295,000
	<u>\$ 12,540,000</u>	<u>\$ 6,936,199</u>	<u>\$ 15,085,000</u>	<u>\$ 13,477,458</u>	<u>\$ 35,700,000</u>	<u>\$ 23,322,735</u>	<u>\$ 59,022,735</u>

ELECTRIC SYSTEM

Analysis of certain restricted cash and investments for debt service

Year ended December 31, 2009

	Bond Funds		Debt Service Reserve	Construction Funds	Customer Deposit Reserve	Total All Funds
	Interest Accounts	Principal Accounts				
Ending balance - December 31, 2008	\$ 5,057,624	\$ 4,466,957	\$ 2,796,502	\$ 49,176,998	\$ 3,210,057	\$ 64,708,138
Proceeds from Line of Credit	-	-	-	43,000,000	-	43,000,000
Deposits from general fund	11,777,606	11,127,428	-	-	-	22,905,034
Interest earnings	4,814	17,057	6,420	411,589	32,618	472,498
Other transfers	(10,183)	10,183	-	-	264	264
Receipts	11,772,237	11,154,668	6,420	43,411,589	32,882	66,377,796
Principal payments	-	10,780,000	-	-	-	10,780,000
Interest payments	12,065,140	-	-	-	-	12,065,140
Defeasance	-	-	-	-	-	-
Transfers to general fund	-	-	-	57,814,906	697,215	58,512,121
Disbursements	12,065,140	10,780,000	-	57,814,906	697,215	81,357,261
U.S. agency securities, at market	12,409,267	-	-	33,997,337	-	46,406,604
Cash in bank	-	-	-	-	2,304	2,304
State of Oregon Local Government	-	-	-	-	-	-
Investment Pool	-	-	-	776,344	2,543,420	3,319,764
Ending balance - December 31, 2009	\$ 4,764,721	\$ 4,841,625	\$ 2,802,922	\$ 34,773,681	\$ 2,545,724	\$ 49,728,673

WATER SYSTEM

Analysis of certain restricted cash and investments for debt service

Year ended December 31, 2009

	<u>Debt Service Accounts</u>	<u>SDC Reserves</u>	<u>Construction Funds</u>	<u>Total All Funds</u>
Ending balance - December 31, 2008	<u>\$ 2,010,892</u>	<u>\$ 6,703,117</u>	<u>\$ 11,057,461</u>	<u>\$ 19,771,470</u>
Deposits from general fund	3,566,830	2,131,211	-	5,698,041
Interest earnings	5,187	43,561	168,075	216,823
Receipts	<u>3,572,017</u>	<u>2,174,772</u>	<u>168,075</u>	<u>5,914,864</u>
Principal payments	1,225,000	-	-	1,225,000
Interest payments	1,728,327	-	-	1,728,327
Transfers to general fund	-	5,858,859	11,035,673	16,894,532
Disbursements	<u>2,953,327</u>	<u>5,858,859</u>	<u>11,035,673</u>	<u>19,847,859</u>
U.S. agency securities, at market	2,629,582	-	-	2,629,582
Investment Pool	-	3,019,030	189,863	3,208,893
Ending balance - December 31, 2009	<u>\$ 2,629,582</u>	<u>\$ 3,019,030</u>	<u>\$ 189,863</u>	<u>\$ 5,838,475</u>

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

To the Board of Directors
Eugene Water & Electric Board

We have audited the accompanying combined financial statements of the Eugene Water & Electric Board (EWEB) as of and for the year ended December 31, 2009 and have issued our report thereon dated March 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

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

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

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

Internal Control Over Financial Reporting

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

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

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

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

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



For Moss Adams LLP
Portland, Oregon
March 16, 2010

Rely on us.



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

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