

**EUGENE WATER & ELECTRIC BOARD**  
**INDEPENDENT AUDITOR'S REPORTS AND**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

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**BOARD OF COMMISSIONERS**  
*500 East Fourth Avenue ▪ Eugene, Oregon 97401*

Mr. Ron Farmer	President
Ms. Sandra Bishop	Vice-President
Mr. Patrick Lanning	Member
Mr. John Simpson	Member
Mr. Mel Menegat	Member

**OFFICERS**  
*500 East Fourth Avenue ▪ Eugene, Oregon 97401*

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Eugene Water & Electric Board

We have audited the accompanying balance sheets of the Electric System and Water System of Eugene Water and Electric Board ("Board") as of December 31, 2005 and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year 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 audit.

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. 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 audit provides 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, 2005 and the results of its operations and its cash flows for the year 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 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information included as supplementary information 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 been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Vancouver, Washington  
January 26, 2006



A Partner of Moss Adams LLP  
Certified Public Accountants

**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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The Eugene Water & Electric Board (“Board” or “EWEB”) is an administrative unit of the City of Eugene, Oregon (“City”) and is responsible for the operation of the water and electric utilities of the City. The responsibilities delegated to the Board pursuant to the City Charter are conducted under the direction of a publicly elected board of five commissioners. The Board operates vertically integrated electric and water utilities that serve 84,200 electric customers and 49,200 water customers.

**Financial Policies and Controls**

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

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

**Power Supply Risk Management Policies**

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

In addition to these anti-speculation provisions, the policies set standards for power supply counterparty creditworthiness. Credit exposure to all existing and potential counterparties is reviewed on a continuous basis and actions are taken to either obtain security or restrict business transactions so as to be consistent with the credit evaluation.

**Electric System**

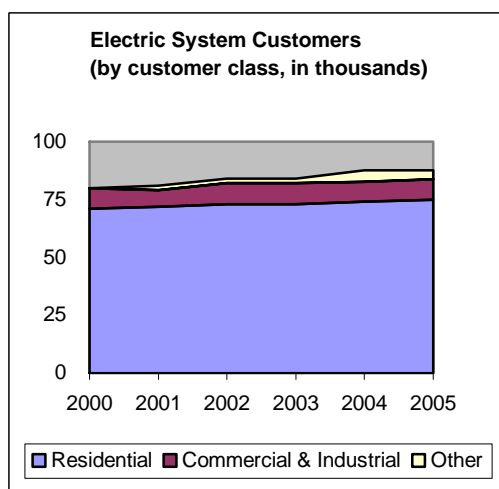
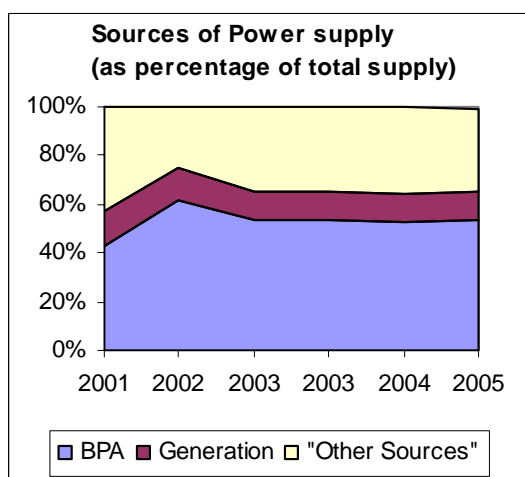
The Electric System serves a 238-square mile area, including the City and adjacent suburban areas. Power supply requirements are met primarily from hydroelectric sources, including self-generation and purchases from Bonneville Power Administration (“BPA”). Heating load and general economic conditions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

## EUGENE WATER & ELECTRIC BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

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The Electric System in 2005 purchased 56% of its power used to serve load from BPA, the majority of which is provided under a "Slice of System" contract with the remainder obtained under a standard output ("Block") contract. Under the Slice agreement EWEB has rights to 2.4% of the output of the federal BPA system. At critical water conditions this portion of output, together with EWEB's self-generation is sufficient to serve retail load. The price of Slice power is set assuming critical water conditions. To the extent water conditions are above critical, the resulting secondary output is obtained at no additional charge. Sales prices are supported by output sales into forward markets and by financial instruments that have the effect of setting minimum price for sales of secondary power.

Beginning in 2005, EWEB changed its budgeting and forecasting process to assume that available water for generation is 85% of the normal precipitation.

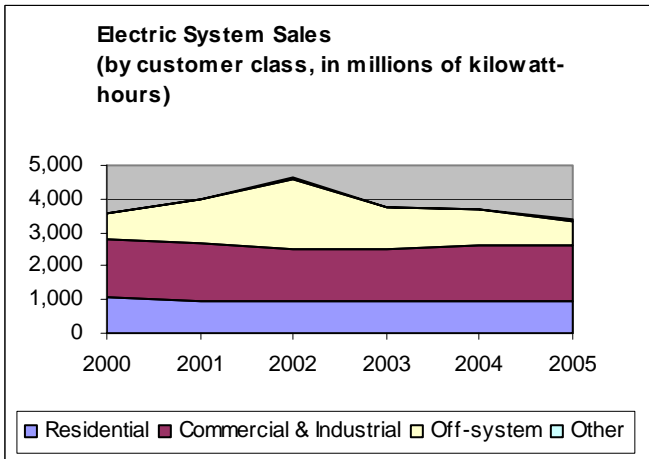
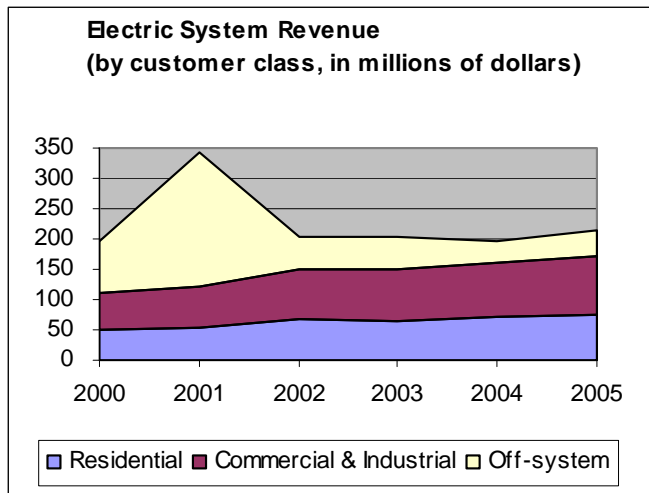


**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Financial Summary and Analysis**

During 2005 the Electric System's gross operating revenues increased by \$7 million (or 3.3%). Retail revenues increased by \$9 million (5.5%) in comparison to 2004. The increase was as a result of the full year impact of the two retail rate increases in 2004 (4.6 % in April and 5.7 % in October) offset by two rate decreases in 2005 of 1.6% in May and 2.5% in November. The 2005 rate decreases were the result of reductions in Bonneville wholesale rates that were in turn, passed through to the customers. As a result, net operating revenue increased \$4 million (9.6%) over 2004.



**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Selected Financial Data**

*(in millions of dollars)*

	2005	2004
Operating revenues	\$ 218	\$ 211
Operating expenses	175	171
Net operating income	44	40
Other revenues	5	4
Other expenses	(30)	(25)
Income before contributed capital	19	19
Contributed capital	3	3
Change in net assets	\$ 22	\$ 22
 Total assets	 \$ 433	 \$ 396
 Total liabilities	 \$ 269	 \$ 254
Net assets		
Invested in capital assets, net of related debt	94	73
Restricted	10	9
Unrestricted	60	60
Total net assets	164	142
Total liabilities and net assets	\$ 433	\$ 396

**Capital Asset and Long-Term Debt Activity**

Total utility plant in service as of December 31, 2005 and 2004 consisted of the following:

*(in millions of dollars)*

	2005	2004
Generation and land	\$ 174	\$ 169
Transmission and distribution	225	218
General plant	73	67
Total plant in service	\$ 472	\$ 454

As of year end, the Electric System had \$472 million of plant-in-service. Additions to electric plant consisted primarily of re-licensing related improvements to the Leaburg Hydroelectric Project and the distribution system. Utility plant in service, net of accumulated depreciation, was \$221 million. This represented an increase of \$9 million (4.4%) over 2004. Capital construction is provided for through a combination of construction fees, cash flow from revenues and long-term revenue bonds.

**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Total liabilities as of December 31, 2005 and 2004 consisted of the following:

<i>(in millions of dollars)</i>	<u>2005</u>	<u>2004</u>
Current liabilities	\$ 50	\$ 42
Noncurrent liabilities	<u>219</u>	<u>212</u>
Total liabilities	<u>\$ 269</u>	<u>\$ 254</u>

EWEB issues revenue bonds to provide for the construction of capital facilities. At year end, the Electric System had \$214 million of revenue bonds outstanding versus \$210 million last year. Additional bonds were issued during 2005 in the amount of \$10.5 million to perform studies to support the Carmen-Smith Hydroelectric Plant relicensing application and to perform preliminary design of a new headquarters facility.

**Economic Factors, Rates, and Outlook**

During 2006 retail electric rates are expected to change so as to pass through the effects of Bonneville wholesale rate changes, additional debt service requirements, and an additional increment of renewable energy resources. EWEB expects to issue up to \$4.5 million in Electric Revenue Bonds during 2006 to complete the application process.

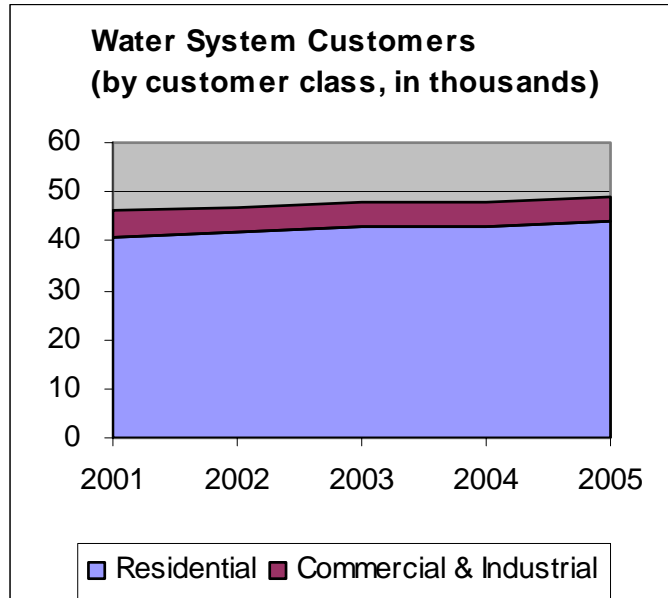
The Federal Energy Regulatory Commission license to operate the Carmen Smith Hydroelectric Project expires in 2008. Continued operation of the project requires the submission of an extensive license application requiring substantial scientific study and consultation with environmental and regulatory agencies. The application is due to be submitted in 2006. The level of capital improvements to be required by the new license cannot be determined at this time.

**Water System**

The Water System provides water to all areas within the City, and two water districts and one private water utility outside the City. During 2005 the Water System sold 1.0 billion gallons of water (10.2% of total sales) to the water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, the largest full-treatment plant in Oregon. Water is pumped from the Hayden Bridge Filtration Plant into the distribution system through two large transmission mains. The water distribution system consists of 27 enclosed reservoirs with a combined storage capacity of 93.5 million gallons, 32 pump stations and over 790 miles of distribution mains.

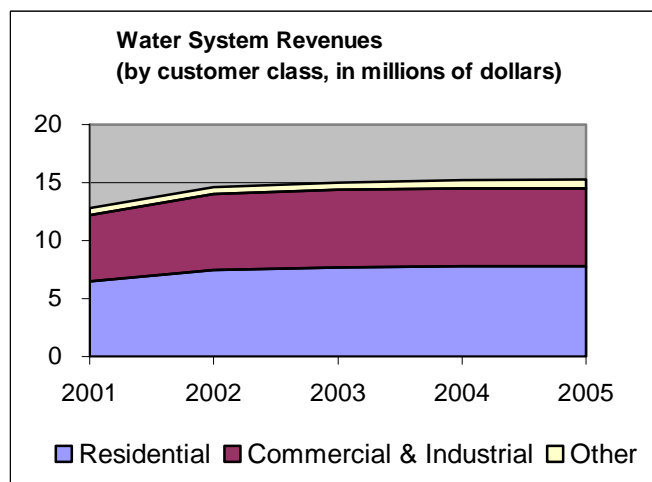
**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Financial Summary and Analysis**

The Water System operating revenues in 2005 were similar to revenues in 2004, however, operation and maintenance costs were higher. The result was a decrease in net operating income by \$614,000 (or 40%) in comparison to 2004. Income before contributed capital was \$401,000, which was 37% higher than in 2004. However, water rates were increased in April of 2004 by 5.6%, which helped to offset higher operational costs in 2005.



**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Selected Financial Data**

<i>(in millions of dollars)</i>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 15.3	\$ 15.2
Operating expenses	<u>14.4</u>	<u>13.7</u>
Net operating income	0.9	1.5
Other revenues	1.0	0.6
Other expenses	<u>(1.5)</u>	<u>(1.8)</u>
Income before contributed capital	0.4	0.3
Contributed capital	<u>3.9</u>	<u>2.9</u>
Change in net assets	<u>\$ 4.3</u>	<u>\$ 3.2</u>
 Total assets	 <u>\$ 81.4</u>	 <u>\$ 86.4</u>
 Total liabilities	 <u>\$ 31.3</u>	 <u>\$ 40.6</u>
Net assets		
Invested in capital assets, net of related debt	31.9	28.1
Restricted	0.8	1.4
Unrestricted	<u>17.3</u>	<u>16.3</u>
Total net assets	<u>50.1</u>	<u>45.8</u>
Total liabilities and net assets	<u>\$ 81.4</u>	<u>\$ 86.4</u>

**Capital Asset and Long-Term Debt Activity**

Total Water System plant in service as of December 31, 2005 and 2004 consisted of the following:

<i>(in millions of dollars)</i>	<u>2005</u>	<u>2004</u>
Production	\$ 32	\$ 30
Transmission and distribution	72	66
General plant	<u>5</u>	<u>5</u>
 Total water system plant in service	 <u>\$ 109</u>	 <u>\$ 101</u>

As of year end the Water System had \$109 million invested in a variety of capital assets. Utility plant in service, net of accumulated depreciation, was \$45.4 million. This represented an increase of \$5.7 million (7%) over 2004. Capital construction is provided for through a combination of construction fees, cash flow from revenues, and long-term revenue bonds.

**EUGENE WATER & ELECTRIC BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Total liabilities as of December 31, 2005 and 2004 consisted of the following:

<i>(in millions of dollars)</i>	<u>2005</u>	<u>2004</u>
Current liabilities	\$ 3	\$ 3
Noncurrent liabilities	<u>28</u>	<u>38</u>
Total liabilities	<u>\$ 31</u>	<u>\$ 41</u>

At year end the Water System had \$23.8 million of revenue bonds outstanding versus \$32.9 million at prior year-end. During 2005 \$12.5 million of Water System Refunding Bonds were issued to obtain savings in interest costs. As part of the refunding plan, \$8.7 million of unspent cash from a prior bond issue was used to reduce debt service requirements.

**System Rates**

Over the last several years the demand for the water supply from customers continues to be lower than anticipated, resulting in lower than projected revenues. Therefore, during 2006, water rates are expected to increase 9.5%.

**Summary**

The management of the Board is responsible for preparing the information in this management's discussion and analysis, financial statements and notes to financial statements. The financial statements are prepared according to accounting principles generally accepted in the United States of America, and they fairly portray the Board's financial position and operating results. The notes to the financial statements are an integral part of the basic financial statements and provide additional information.

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC AND WATER SYSTEMS  
BALANCE SHEETS  
DECEMBER 31, 2005**

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
<b>ASSETS</b>			
Utility plant in service	\$ 472,251,800	\$ 109,103,294	\$ 581,355,094
Less accumulated depreciation	<u>251,655,391</u>	<u>63,696,733</u>	<u>315,352,124</u>
Net utility plant in service	220,596,409	45,406,561	266,002,970
Property held for future use	2,390,372	979,788	3,370,160
Construction work in progress	<u>26,478,248</u>	<u>9,306,595</u>	<u>35,784,843</u>
Net utility plant	<u>249,465,029</u>	<u>55,692,944</u>	<u>305,157,973</u>
Construction funds	2,270,793	-	2,270,793
System development charge reserves	-	9,051,266	9,051,266
Investments for debt service	<u>7,749,842</u>	<u>825,293</u>	<u>8,575,135</u>
Restricted cash and investments	<u>10,020,635</u>	<u>9,876,559</u>	<u>19,897,194</u>
Cash and cash equivalents	12,841,124	1,397,834	14,238,958
Short-term investments	8,605,724	-	8,605,724
Designated cash and investments			
Purchased power reserve	11,832,760	-	11,832,760
Capital improvement reserve	7,673,338	2,992,060	10,665,398
Operating reserve	1,013,311	144,403	1,157,714
Pension and medical reserve	8,217,777	1,842,066	10,059,843
Receivables, less allowances	36,258,549	1,201,879	37,460,428
Materials and supplies, at average cost	2,432,753	418,166	2,850,919
Prepayments and special deposits	<u>5,674,016</u>	<u>575,724</u>	<u>6,249,740</u>
Total current assets	<u>94,549,352</u>	<u>8,572,132</u>	<u>103,121,484</u>
Prepaid retirement obligation	19,038,755	4,759,686	23,798,441
Investment in Western Generation Agency	8,726,974	-	8,726,974
Long-term receivable, conservation and other	5,266,441	-	5,266,441
Note receivable, water	4,989,995	-	-
Deferred charges and other	<u>40,877,294</u>	<u>2,473,028</u>	<u>43,350,322</u>
Total other assets	<u>78,899,459</u>	<u>7,232,714</u>	<u>81,142,178</u>
Total assets	<u>\$ 432,934,475</u>	<u>\$ 81,374,349</u>	<u>\$ 509,318,829</u>

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

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC AND WATER SYSTEMS  
BALANCE SHEETS  
DECEMBER 31, 2005**

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
<b>LIABILITIES</b>			
Payables	\$ 34,479,547	\$ 473,211	\$ 34,952,758
Accrued payroll and benefits	3,197,831	730,478	3,928,309
Accrued interest on long-term debt	4,444,258	441,425	4,885,683
Long-term debt due within one year	7,890,000	905,000	8,795,000
	<u>50,011,636</u>	<u>2,550,114</u>	<u>52,561,750</u>
Current liabilities			
Long-term debt, bonds payable	206,281,335	22,871,884	229,153,219
Note payable, electric	-	4,989,995	-
Other liabilities and deferred credits	12,511,674	908,586	13,420,260
	<u>268,804,645</u>	<u>31,320,579</u>	<u>295,135,229</u>
Total liabilities			
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	94,120,354	31,916,059	126,036,413
Restricted for			
Capital projects	2,216,205	-	2,216,205
Debt service	7,749,842	825,293	8,575,135
Unrestricted	60,043,429	17,312,418	77,355,847
	<u>164,129,830</u>	<u>50,053,770</u>	<u>214,183,600</u>
Total net assets			
Total liabilities and net assets	<u>\$ 432,934,475</u>	<u>\$ 81,374,349</u>	<u>\$ 509,318,829</u>

Note: InterSystem note payable and receivable are eliminated in the Total Systems column.

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC AND WATER SYSTEMS  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
YEAR ENDED DECEMBER 31, 2005**

	Electric System	Water System	Total Systems
Residential	\$ 74,952,601	\$ 7,769,386	\$ 82,721,987
Commercial and industrial	98,033,592	6,663,814	104,697,406
Sales for resale and other	45,134,076	870,165	46,004,241
Operating revenues	<u>218,120,269</u>	<u>15,303,365</u>	<u>233,423,634</u>
Purchased power	102,004,065	-	102,004,065
System control	4,243,382	-	4,243,382
Wheeling	10,586,182	-	10,586,182
Steam and hydraulic generation	11,403,035	-	11,403,035
Transmission and distribution	14,079,774	4,887,220	18,966,994
Source of supply, pumping and purification	-	2,576,872	2,576,872
Customer accounting	7,366,564	1,082,709	8,449,273
Conservation expenses	1,653,461	570,394	2,223,855
Administrative and general	12,246,933	2,778,961	15,025,894
Depreciation on utility plant	10,976,012	2,477,362	13,453,374
Operating expenses	<u>174,559,408</u>	<u>14,373,518</u>	<u>188,932,926</u>
Net operating income	<u>43,560,861</u>	<u>929,847</u>	<u>44,490,708</u>
Interest earnings on investments	3,043,719	563,871	3,607,590
Allowance for funds used during construction	237,019	154,306	391,325
Other revenue	1,748,010	245,842	1,993,852
Other revenues	<u>5,028,748</u>	<u>964,019</u>	<u>5,992,767</u>
Contributions in lieu of taxes	11,052,512	-	11,052,512
Other revenue deductions	7,847,624	3,410	7,851,034
Interest expense and related amortization	10,967,378	1,574,808	12,542,186
Allowance for borrowed funds used during construction	-	-	-
Other expenses	<u>(313,100)</u>	<u>(85,300)</u>	<u>(398,400)</u>
Income before contributed capital	<u>29,554,414</u>	<u>1,492,918</u>	<u>31,047,332</u>
Income before contributed capital	19,035,195	400,948	19,436,143
Contributed capital	<u>3,209,529</u>	<u>3,901,690</u>	<u>7,111,219</u>
Change in net assets	22,244,724	4,302,638	26,547,362
Total net assets at beginning of year	<u>141,885,106</u>	<u>45,751,132</u>	<u>187,636,238</u>
Total net assets at end of year	<u>\$ 164,129,830</u>	<u>\$ 50,053,770</u>	<u>\$ 214,183,600</u>

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC AND WATER SYSTEMS  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2005**

	Electric System	Water System	Total Systems
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 217,929,908	\$ 15,549,205	\$ 233,479,113
Other receipts	1,503,701	262,349	1,766,050
Power purchases	(103,801,760)	-	(103,801,760)
Payments to suppliers	(34,502,744)	(5,285,829)	(39,788,573)
Payments to employees	(24,516,342)	(6,043,522)	(30,559,864)
Contribution in lieu of taxes	(10,827,112)	-	(10,827,112)
	<u>45,785,651</u>	<u>4,482,203</u>	<u>50,267,854</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investment securities	(95,793,486)	(26,273,151)	(122,066,637)
Proceeds from sale and maturities of investments	78,490,181	33,392,988	111,883,169
Interest on investments (including investment in WGA)	2,920,462	540,891	3,461,353
Distribution from equity investment in WGA	1,042,034	-	1,042,034
	<u>(13,340,809)</u>	<u>7,660,728</u>	<u>(5,680,081)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Note receipts from Water	230,307	-	-
Note payments to Electric	-	(230,307)	-
	<u>230,307</u>	<u>(230,307)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from bonds	10,841,483	12,661,225	23,502,708
Refunding of bonds	-	(21,040,047)	(21,040,047)
Bond principal payments	(6,145,000)	(860,000)	(7,005,000)
Bond issuance costs	(370,806)	(338,247)	(709,053)
Additions to utility plant	(16,381,138)	(4,704,250)	(21,085,388)
Interest payments	(10,202,716)	(1,710,076)	(11,912,792)
Conservation receipts from BPA	2,903,442	-	2,903,442
Additions to conservation assets and other	(11,823,740)	-	(11,823,740)
Contributed capital	3,209,529	3,901,690	7,111,219
	<u>(27,968,946)</u>	<u>(12,089,705)</u>	<u>(40,058,651)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	4,706,203	(177,081)	4,529,122
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>22,281,448</u>	<u>7,996,244</u>	<u>30,277,692</u>
<b>CASH AND CASH EQUIVALENTS, end of year including cash and cash equivalents restricted or designated: \$14,146,527 and \$6,421,329 for Electric and Water, respectively.</b>	<u>\$ 26,987,651</u>	<u>\$ 7,819,163</u>	<u>\$ 34,806,814</u>

**NON-CASH CAPITAL ACTIVITY:**

In 2005, the Electric System acquired land for \$1,600,000. A payment of \$600,000 was made, and a land sales contract was agreed to for \$1 million.

*See accompanying notes.*

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC AND WATER SYSTEMS  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2005**

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
RECONCILIATION OF NET OPERATING INCOME			
TO NET CASH FROM OPERATING			
ACTIVITIES			
Net operating income	\$ 43,560,861	\$ 929,847	\$ 44,490,708
Adjustments to reconcile net operating income to			
net cash from operating activities			
Net depreciation	9,260,070	2,522,481	11,782,551
Contributions in lieu of taxes	(10,827,112)	-	(10,827,112)
Other revenue	1,572,489	245,842	1,818,331
Equity income from WGA	(94,423)	-	(94,423)
(Increase) decrease in assets			
Receivables	(585,063)	236,530	(348,533)
Materials and supplies	(340,212)	8,789	(331,423)
Prepayments and special deposits	(979,562)	145,987	(833,575)
Conservation loans, net	223,078	6,504	229,582
Long-term receivable, other	71,714	-	71,714
Prepaid retirement obligation	921,230	230,307	1,151,537
Deferred charges	(5,832,572)	(283,223)	(6,115,795)
Increase in liabilities			
Accounts payable, accrued payroll and benefits	5,716,832	130,099	5,846,931
Deferred credits and other	3,118,321	309,040	3,427,361
	<u>\$ 45,785,651</u>	<u>\$ 4,482,203</u>	<u>\$ 50,267,854</u>
Net cash from operating activities			

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 1 - Reporting Entity**

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

The Board provides energy and water service primarily to residential, commercial and industrial customers located in a 238 square mile area, including the City of Eugene and adjacent suburban areas. The Board has the authority to fix rates and charges. In order to secure power resources, the Board has taken ownership of various generation facilities. In addition, the Board has entered into joint ventures, whereby it has taken or anticipates taking an equity position in various generation facilities. The operations and sale of energy generated from the Board’s relationship with each of the facilities is subject to certain risks. Operations are contingent on various factors, such as regulation, 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.

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

**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. The Board has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, the Board has elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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.

**Cash and Cash Equivalents**

The Board considers money market accounts, government investment pool holdings, and certificates of deposit to be cash equivalents.

**Operating Revenue**

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

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 at December 31, 2005 were \$345,900 for the Electric System, and \$19,600 for the Water System. (See Note 5 for allowance amounts.)

Approximately 17.6% of 2005 Electric System's retail revenues were the result of sales to two industrial customers. Approximately 4.7% of 2005 Water System's operating revenues were the result of sales to one industrial customer.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**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 trading purposes.

Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, requires that every derivative instrument 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 normal sales exception of that standard. In accordance with the policy guidelines, the Board utilizes derivative instruments to minimize its exposure to commodity price risk. These instruments include electricity options, natural gas swaps and options. These contracts are considered derivative instruments under the provisions of SFAS No. 133. At December 31, 2005, net unrealized gains from derivative instruments aggregate \$6,960,279 for the Electric System. The notional amounts under such contracts totaled \$22,848,324 and the contracts extend through 2008.

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

It is the Board's policy to apply, as appropriate, the normal purchase normal sales exception under SFAS No.133, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Hedging Activities, SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, and relevant Derivative Implementation Group (DIG) guidance. Collectively, these statements are referred to as SFAS No.133. Purchases and sales of forward electricity contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales" under SFAS 133. These transactions are not required to be recorded at fair value in the financial statements. The contracts qualifying as normal purchases and normal sales have aggregate notional amounts totaling \$56,913,626 and extend through 2008.

Financial Accounting Standards Board Emerging Issues Task Force Issue No. 03-11 (EITF 03-11), Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes, requires that revenues and expenses associated with non-trading energy activities that are "booked out" (not physically settled) be reported on a net basis. Effective with the adoption of EITF 03-11, book out settlement of non-trading electricity derivative activities are now recorded on a net basis in operating revenues and expenses.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Regulatory Deferrals**

The Board has deferred costs to be charged to future periods as allowed by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, which follows the premise that a utility should recognize expenses at the time when the ratemaking process authorizes them to be recovered with related revenues. (See Note 7)

*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 to other revenue deductions on the statements of revenues, expenses and changes in fund net assets.

*Interest Rate Swap*

In 2004, the Board entered into a fixed-to-floating LIBOR interest rate swap to help convert a portion of its fixed long-term debt portfolio. This reduces the Board's interest rate costs relative to the Series 1998A bonds and provides a variable rate debt component within its overall debt portfolio. In the swap transaction, the counterparty pays the Board a fixed 3.65 percent interest rate on \$10,945,000 declining notional amount for four years. The Board will pay the counter-party if the 30-day LIBOR interest rate is higher than 3.65 percent. The Board has deferred \$322,000 in net unrealized loss for the interest rate swap. An equivalent amount is recognized as an asset in deferred charges and as a liability in deferred credits.

**Prepaid Retirement Obligation**

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

**Preliminary Surveys**

The Electric System has deferred certain costs associated with its investigation of several projects which it believes will be viable in the future. The balance of these costs at December 31, 2005 was \$11,326,700, primarily for the application process in relicensing the Carmen Smith Project.

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**Utility Plant and Depreciation**

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

In 2005, the Board adopted GASB No. 42 regarding impairment losses of capital assets. There were no impairment events during 2005 requiring impairment tests or recognition of losses, and there were no assets with remaining book value for which to apply the recognition of impairment losses retroactively as required by the Statement.

**Debt Refundings**

For current and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (gain or loss) is deferred and amortized as a component of interest expense over the remaining life of the old debt or the new debt, whichever is shorter, consistent with GASB No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, and reported as a component of the new debt liability on the Balance Sheet.

**Environmental Expenses**

Environmental costs (i.e. fish and plant habitat enhancements) are expensed or capitalized depending upon their future economic benefits. Liabilities for such expenses are recorded when it is probable that obligations have been incurred and the costs can be reasonably estimated.

**Net Assets**

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

- **Invested in capital assets, net of related debt and deferred credits** - This component of net assets consists of (a) capital assets, (b) net of accumulated depreciation and outstanding balances of any bonds, other borrowings and deferred credits that are attributable to the acquisition, construction, or improvement of those assets.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

- **Restricted** - This component consists of net assets on which constraints are placed as to 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** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt and deferred credits."

**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.

**Note 3 - Cash and Investments**

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

**Restricted Cash and Investments**

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

**Systems development charge reserve** - 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.

**Investments for debt service** - 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 for capital improvements.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 3 - Cash and Investments (Continued)**

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

**Pension and medical reserve** - Used to account for cash and investments that the Board has designated 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, 2005, were \$4,780,111. Of the bank balances, \$100,000 were covered by federal depository insurance, and \$4,680,111 were collateralized with securities 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, 2005, the Board held the following investments and maturities (Electric and Water Systems combined):

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	\$ 31,888,974	0.003	43.4%
U.S. Agency Securities	41,650,777	0.307	56.6%
Total	<u>\$ 73,539,751</u>	<u>0.310</u>	<u>100%</u>

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

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

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

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 3 - Cash and Investments (Continued)**

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 State of Oregon Statute to \$38,262,295, which amount will increase proportionately to the Portland Consumer Price Index. The limit can be exceeded for ten business days.

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.

Concentration of credit risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. Of the Board's total investments as of December 31, 2005, 43% is invested in the State of Oregon Local Government Investment Pool and 57% in direct obligations of the U.S. Government.

The Board's policy, which adheres to Oregon statutes, is to limit its investments to the top two ratings issued by nationally recognized statistical rating organizations. As a general practice, and in a further effort to minimize credit risk, the Board concentrates on U.S. agency investments and investments in the Local Government Investment Pool, and generally invests only in top rated commercial paper and corporate bonds. In all instances, the Board actively evaluates the credit worthiness of the financial institutions with which it invests.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

**Note 3 - Cash and Investments (Continued)**

Cash and investments consist of the following at December 31, 2005:

	Restricted Cash and Investments	Cash and Cash Equivalents	Short-Term Investments	Designated Funds	Total Carrying Amount
<b>ELECTRIC SYSTEM</b>					
Cash on hand	\$	\$ 11,800	\$ -	\$ -	\$ 11,800
Cash in bank	-	2,093,314	-	-	2,093,314
Investments in the State of Oregon local government investment pool	2,270,793	10,736,010	-	11,875,734	24,882,537
Investments - direct obligations of U.S. government	<u>7,749,842</u>	<u>-</u>	<u>8,605,724</u>	<u>16,861,452</u>	<u>33,217,018</u>
Total electric system	<u>\$ 10,020,635</u>	<u>\$ 12,841,124</u>	<u>\$ 8,605,724</u>	<u>\$ 28,737,186</u>	<u>\$ 60,204,669</u>
<b>WATER SYSTEM</b>					
Cash in bank	\$ -	\$ 812,726	\$ -	\$ -	\$ 812,726
Investments in the State of Oregon local government investment pool	2,529,391	585,108	-	3,891,938	7,006,437
Investments - direct obligations of U.S. government	<u>7,347,168</u>	<u>-</u>	<u>-</u>	<u>1,086,591</u>	<u>8,433,759</u>
Total water system	<u>\$ 9,876,559</u>	<u>\$ 1,397,834</u>	<u>\$ -</u>	<u>\$ 4,978,529</u>	<u>\$ 16,252,922</u>
	<u>\$ 19,897,194</u>	<u>\$ 14,238,958</u>	<u>\$ 8,605,724</u>	<u>\$ 33,715,715</u>	<u>\$ 76,457,591</u>

**EUGENE WATER & ELECTRIC BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2005**

**Note 4 - Utility Plant**

The major classifications and depreciable lives of utility plant in service at December 31 2005, are as follows:

***Electric Utility Plant***

	Depreciable Life -Years	Balance at December 31, 2004	Increases	Decreases	Balance at December 31, 2005
Land		\$ 6,133,391	\$ 18,062	\$ (185,825)	\$ 5,965,628
Steam production	10-25	18,983,255	63,438	(999,715)	18,046,978
Hydro production	36-50	130,161,083	6,351,409	-	136,512,492
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	53,677,711	1,032,308	-	54,710,019
Distribution	28.5	164,346,213	7,571,668	(753,475)	171,164,406
General plant	3-50	67,355,406	5,732,674	(322,985)	72,765,095
Total utility plant in service		453,744,241	20,769,559	(2,262,000)	472,251,800
Accumulated depreciation		(242,395,323)	(11,441,375)	2,181,307	(251,655,391)
Property held for future use		739,429	1,650,943	-	2,390,372
Construction work in progress		29,677,675	15,767,577	(18,967,004)	26,478,248
Net utility plant		<u>\$ 241,766,022</u>	<u>\$ 26,746,704</u>	<u>\$ (19,047,697)</u>	<u>\$ 249,465,029</u>

***Water Utility Plant***

	Depreciable Life -Years	Balance at December 31, 2004	Increases	Decreases	Balance at December 31, 2005
Land		\$ 637,411	\$ 53,744	\$ -	\$ 691,155
Structure	50	22,383,503	1,667,855	-	24,051,358
Pumping	20	6,159,267	586,371	-	6,745,638
Purification	25	1,157,202	516	-	1,157,718
Transmission	28.5	17,196,188	-	-	17,196,188
Reservoirs	50	10,971,461	2,728,618	-	13,700,079
Distribution	28.5	29,846,054	2,239,676	-	32,085,730
Services, meters and hydrants	20-28.5	7,942,837	567,020	-	8,509,857
General plant	3-50	4,531,738	461,170	(27,337)	4,965,571
Total utility plant in service		100,825,661	8,304,970	(27,337)	109,103,294
Accumulated depreciation		(61,174,252)	(2,550,543)	28,062	(63,696,733)
Property held for future use		903,106	76,682	-	979,788
Construction work in progress		12,802,778	4,270,231	(7,766,414)	9,306,595
Net utility plant		<u>\$ 53,357,293</u>	<u>\$ 10,101,340</u>	<u>\$ (7,765,689)</u>	<u>\$ 55,692,944</u>

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 5 - Receivables**

A summary of significant receivables is as follows:

	Electric System	Water System
Accounts receivable	\$ 33,700,883	\$ 1,150,761
Allowance for doubtful accounts	(319,699)	(19,646)
Net accounts receivable	33,381,184	1,131,115
Conservation loans to customers	1,437,112	-
Interest receivable	570,431	-
Miscellaneous receivables	455,910	70,764
Note receivable (Bonneville Power Administration)	178,359	-
Renewable Energy Production Incentive (REPI)	235,553	-
Receivables (current)	\$ 36,258,549	\$ 1,201,879
Conservation loans to customers	\$ 4,335,704	
Note receivable (Bonneville Power Administration)	836,663	
Renewable Energy Production Incentive (REPI)	94,074	
Long-term receivables	\$ 5,266,441	

**Note 6 - Investment in Western Generation Agency**

The Board is a party to an Intergovernmental Agency Agreement, whereby the Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling \$15,100,000, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. During 2005, distributions totaling \$1,042,034 were received, of which \$402,644 was a preferred equity distribution. The repayment of the entire equity investment is contingent upon the successful operation of the Project and is not guaranteed. Should the Project fail to generate sufficient revenues, the repayment of the equity contribution may occur only in part or not at all. At December 31, 2005, the Board has recorded a receivable in the amount of \$568,111 for the preferred dividend, which is included in other revenue.

**EUGENE WATER & ELECTRIC BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2005**

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**Note 6 - Investment in Western Generation Agency (Continued)**

The balance of the investment in Western Generation Agency as of December 31, 2005 was \$8,726,974 and has been decreased by the equity distributions previously described and increased by the Board's 50% share of Agency's 2005 net income, or \$94,000. The Board is committed, through a power purchase agreement, to purchase the output from the Project through the year 2021. The Board has agreed to suspend its agreement with the Agency in favor of a separate purchase power agreement between the Agency and the BPA through the year 2016. Financial information for the Project is included in the financial statements of the Agency and may be obtained from the Agency's trustee, Wells Fargo Bank.

**Note 7 - Deferred Charges and Other and Other Liabilities and Deferred Credits**

Deferred charges and other and other liabilities and deferred credits at December 31, 2005 were as follows:

	Electric System	Water System
	<u>                    </u>	<u>                    </u>
Deferred charges and other		
Regulatory assets		
Derivatives - market value (See Note 2)	\$ 6,960,279	\$ -
Interest rate swap - market value	322,000	-
Sick leave - upon retirement	1,348,613	337,153
Net pension obligation - supplemental retirement plan	1,048,607	262,152
Conservation assets	13,334,523	-
Unamortized bond expense	2,897,008	811,383
Preliminary surveys	11,326,659	-
Prepaid option premiums (See Note 2)	3,639,043	-
Other	562	-
Lease prepayment	-	992,243
Unamortized loss on defeasance	-	70,097
	<u>                    </u>	<u>                    </u>
Deferred charges and other	<u>\$ 40,877,294</u>	<u>\$ 2,473,028</u>
Other liabilities and deferred credits		
Regulatory liabilities		
Derivatives - market value	\$ 6,960,279	\$ -
Interest rate swap - market value	322,000	-
Sick leave - upon retirement	1,348,613	337,153
Net pension obligation - supplemental retirement plan	1,048,607	262,152
Note payable on land	920,495	-
Other	1,911,680	309,281
	<u>                    </u>	<u>                    </u>
Other liabilities and deferred credits	<u>\$ 12,511,674</u>	<u>\$ 908,586</u>

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 8 - Payables**

Current payables at December 31, 2005 were as follows:

	<u>Electric System</u>	<u>Water System</u>
Accounts payable	\$ 25,413,186	\$ 259,436
Construction payables	884,491	-
Contributions in lieu of taxes	775,805	-
Customer deposits	3,112,989	-
Due to bank/cash transfers pending	2,394,060	-
Miscellaneous payables	744,972	213,775
Preliminary investigations payables	1,154,044	-
	<u>\$ 34,479,547</u>	<u>\$ 473,211</u>

**EUGENE WATER & ELECTRIC BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2005**

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**Note 9 - Long-Term Debt**

Long-term portion of bonds payable at December 31, 2005:

Electric Utility System Revenue and Refunding Bonds	
1996 Series, 12-10-96 issue	
Serial Bonds, 4.90% - 5.375%, due 2006-2013	\$ 7,995,000
Term Bonds, 5.60%, due 2014-2016	4,425,000
1997 Series, 10-1-97 issue, 4.5% - 5.00%, due 2006-2011	6,450,000
1998 Series, 2-1-98 issue	
Serial Bonds, 4.3% - 4.85%, due 2006-2015	9,310,000
Term Bonds, 5.00% - 5.05%, due 2016-2022	23,875,000
1998 Series A, 11-15-98 issue	
Serial Bonds, 5.86% - 5.97%, due 2006-2009	1,130,000
Term Bonds, 6.22% - 6.85%, due 2010-2023	9,165,000
2001 Series A, 11-15-01 issue	
Term Bonds, 6.32%, due 2006-2022	25,660,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556
2001 Series B, 11-15-01 issue	
Serial Bonds, 4.00% - 5.25%, due 2006-2022	18,695,000
Term bonds, 5.00%, due 2023-2031	19,140,000
2002 Series A, 5-7-02 issue	
5.25%, due 2006-2011	7,520,000
2002 Series B, 6-1-02 issue	
4.875% - 5.96%, due 2006-2012	7,855,000
2002 Series C, 6-1-02 issue	
3.125% - 5.0%, due 2006-2022	10,945,000
2003 Series, 6-10-03 issue	
2.0% - 5.0%, due 2006-2022	39,415,000
2005 Series, 5-10-05 issue	
Serial Bonds, 3.00% - 5.0%, due 2006-2020	6,690,000
Term bonds, 4.5%, due 2022 & 2025	3,530,000
	<u>205,867,556</u>
Add unamortized premium	2,986,260
Less unamortized refunding costs	(1,773,629)
Less unamortized discount	<u>(798,852)</u>
	<u>206,281,335</u>
Electric System Bonds payable	<u>206,281,335</u>

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 9 - Long-Term Debt (Continued)**

Water Utility System Revenue and Refunding Bonds	
2000 Series, 6-1-00 issue, 5.20% - 5.30% due 2007-2010	1,935,000
2002 Series, 8-1-02 issue, 2.75% - 4.7%, due 2007-2022	10,000,000
2005 Series, 8-16-05 issue	
Serial Bonds, 3.5% - 5.0%, due 2011-2025	8,360,000
Term bonds, 4.35%, due 2030	4,180,000
Note payable - Electric	
11-15-01 issue, 6.32% - 7.21%, due 2006-2027	4,989,995
29,464,995	
Add unamortized premium	118,751
Less unamortized discount	(174,958)
Less unamortized refunding costs	(1,546,909)
Water System bonds and note payable	27,861,879
Total long-term portion of debt	234,143,214
Less inter system payable	4,989,995
Total Systems long-term debt, bonds payable	\$ 229,153,219

The carrying amount and fair value of current and long-term debt at December 31, 2005 were as follows:

	Carrying Amount	Fair Value	
Electric System	\$ 214,171,335	\$ 226,356,855	
Water System	23,776,884	25,420,900	
Total bonds payable	\$ 237,948,219	\$ 251,777,755	

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 9 - Long-Term Debt (Continued)**

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

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2006	\$ 7,890,000	\$ 10,666,213	\$ 905,000	\$ 1,059,418
2007	9,075,000	10,327,294	910,000	1,040,426
2008	9,685,000	9,924,930	940,000	2,126,604
2009	10,330,000	9,483,179	985,000	2,087,242
2010	11,005,000	9,003,318	1,025,000	2,045,082
2011 - 2015	49,095,000	37,354,152	5,080,000	4,031,271
2016 - 2020	58,475,000	23,929,843	6,285,000	2,874,244
2021 - 2025	42,991,437	17,739,802	5,070,000	1,455,758
2026 - 2030	12,646,119	10,013,881	4,180,000	561,150
2031	2,565,000	128,250	-	-
	<u>\$ 213,757,556</u>	<u>\$ 138,570,862</u>	<u>\$ 25,380,000</u>	<u>\$ 17,281,195</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.

The Board entered, but had not drawn on a non-revolving demand line of credit on December 23, 2003 with a combination of prime and the LIBOR interest rate for a maximum of \$30 million. The Board renewed the line of credit on December 31, 2005 with no balance outstanding.

In May 2005, the Board issued \$10,575,000 in Electric Utility Revenue Bonds with interest rates from 3.0% to 4.5% maturing in 2025 for the Carmen Smith Hydroelectric Project and the preliminary design of a new headquarters facility.

In August of 2005, the Water Utility issued the 2005 Revenue Refunding Series bond for \$12,540,000 with rates from 3.5% to 5.0% maturing in 2030 to partially advance refund a portion of the Water Utility Revenue Bonds Series 2000. The Board deposited \$8,707,000 of funds from the 2002 Series Bond to pay down the 2000 Series debt.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

**Note 9 - Long-Term Debt (Continued)**

The 2005 Water System refunding resulted in an accounting loss of \$1,570,000 to be amortized over the life of the defeased bond issue, the Board reduced its debt service by \$17.5 million over 25 years and obtained an economic gain (difference between the present values of the old and the new debt service payments) of \$1.83 million.

As of December 31, 2005 the amount of defeased debt still outstanding but removed from the Board's long-term debt amounted to \$22,359,000 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.

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

	Outstanding January 1, 2005	Issued During Year	Redeemed During Year	Outstanding December 31, 2005
Electric Revenue Bonds, with interest rates from 3.0% to 6.85%, maturing through 2031 (original issue \$200,805,000)	\$ 74,560,000	\$ 10,575,000	\$ (3,010,000)	\$ 82,125,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue \$127,190,000)	104,770,000	-	(3,045,000)	101,725,000
Electric Revenue Current Interest Bonds, with interest rate of 6.32%, maturing through 2027 (original issue \$29,997,556)	29,997,556	-	(90,000)	29,907,556
Total Electric System	209,327,556	10,575,000	(6,145,000)	213,757,556
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2030 (original issue \$19,155,000)	1,765,000	12,540,000	(860,000)	13,445,000
Water Revenue Bonds, with interest rates from 2.75% to 5.30%, maturing through 2022 (original issue \$31,405,000)	31,405,000	-	(19,470,000)	11,935,000
Total Water System	33,170,000	12,540,000	(20,330,000)	25,380,000
Total bonded debt	\$ 242,497,556	\$ 23,115,000	\$ (26,475,000)	\$ 239,137,556

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 9 - Long-Term Debt (Continued)**

The Board entered into a \$1 million, ten-year, land sale contract in 2005 as part of the purchase terms of land being considered for new administrative and operational space in Eugene. The long-term portion of this contract is reported in other liabilities and deferred credits. The short-term portion of this contract is reported in payables.

**Note 10 - Power Supply Resources**

The Board maintains purchase power purchase agreements with BPA and various other regional utilities. These agreements began expiring during 2001 and will continue through 2031 and may be renewed at the Board's option, prior to expiration. A significant portion of the power received from BPA is provided under the "Slice" contract. The Slice contract provides for certain periodic adjustments and true-ups based on actual BPA costs. All BPA assessed true-ups have been fully accrued for 2005; however, certain of these costs are subject to refund by BPA upon certain findings.

Expected costs for power supply contracts are as follows:

2006	\$ 91,168,000
2007	98,690,000
2008	98,571,000
2009	98,629,000
2010	98,002,000
Thereafter	<u>267,651,000</u>
	<u><u>\$ 752,711,000</u></u>

Amounts to be paid under the Board's power supply contracts are subject to significant variation based on changes in rates and volumes, therefore the above should be considered estimates.

During 2005 the Board purchased approximately 56% of its power requirements from BPA, approximately 32% from sources other than BPA, and generated approximately 12%.

**Note 11 - Retirement Benefits**

**Plan Description**

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

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

**Funding Policy**

In March of 2005, OPERS issued a rate order to increase employer rates on July 1, 2005 as the result of the December 31, 2003 actuarial valuation. The rates were to be phased in over the following two years. The Board elected to take the full rate increase instead of the phase in, resulting in an employer rate increase from 11.32% to 23.51% of covered payroll effective July 1, 2005. The next actuarial valuation is for the year ended December 31, 2005, which is expected to be available in February 2007.

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 December 2001, the Board elected to make a lump-sum payment of approximately \$29,600,000, which had the effect of lowering the employer contribution rate. The lump sum payment is recorded as an other asset and is being amortized over the funding period of 27 years. The amortization was \$1,152,000 for 2005.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 11 - Retirement Benefits (Continued)**

**Annual Pension Cost**

Because all OPERS participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are calculated in conformance with the parameters of GASB No. 27, Accounting for Pensions by State and Local Government Employers, there is no net pension obligation to report, and annual required contributions are equal to annual pension cost. For the year ended December 31, 2005, the Board's annual pension expense of \$6,804,000, consisted of the employer portion of \$5,014,000 and the annual required contribution of approximately \$1,790,000 (an average for 2005 of 17% of covered payroll and 6%, respectively).

The Board's pension liability and the annual required contribution rate were determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The unfunded actuarial accrued liability is amortized as a level percentage of projected annual payroll on an open basis over a 24-year period. The actuarial assumptions include a rate of return on investment of present and future assets of 8.0% per year, projected salary increases of 4.25% (excluding merit and longevity increases), and cost-of-living adjustments of 2.0% per year for postretirement benefits. Investment return and projected salary increases include an inflation component of 3.5%.

The following table presents three-year trend information for the Board's employee pension plan for the fiscal year ending December 31:

	Annual Pension Cost (APC)	Percentage of APC Contributed
2003	\$ 5,221,700	100%
2004	\$ 5,067,900	100%
2005	\$ 6,804,000	100%

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

Valuation Date	Value of Assets	Actuarial Liability	Unfunded Actuarial Liability (UAL)	Percent of Actuarial Liability Funded	Covered Payroll	UAL/Payroll
12-31-99	\$ 172,684,683	\$ 227,670,647	\$ 54,985,964	76%	\$ 27,087,320	203%
12-31-01 *	\$ 197,488,997	\$ 200,261,724	\$ 2,772,727	99%	\$ 27,068,757	10%
12-31-03	\$ 186,436,249	\$ 235,598,684	\$ 49,162,435	79%	\$ 27,419,888	179%

\* Revised, including 2003 legislative action.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 11 - Retirement Benefits (Continued)**

**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, 2005, with the next actuarial valuation for the year ended December 31, 2005 scheduled to be completed during 2006.

The Board's pension liability and the annual required contribution rate were determined as part of the January 1, 2005 actuarial valuation using the unit credit method. The unfunded actuarial accrued liability is amortized as a level percentage of projected annual payroll on an open basis over a 10-year period. The actuarial assumptions include a rate of return on investment of present and future assets of 7.0% per year, cost-of-living adjustments of 2.0% per year for postretirement benefits and 1983 Group Annuity Mortality rate.

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

Annual recommended contribution	\$	487,194
Interest on net pension obligation		103,630
Adjustment to annual recommended contribution		<u>(190,777)</u>
Annual pension cost		400,047
Contributions made		<u>569,716</u>
Decrease in net pension obligation		(169,669)
Net pension obligation, January 1		<u>1,480,428</u>
Net pension obligation, December 31	\$	<u><u>1,310,759</u></u>

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 11 - Retirement Benefits (Continued)**

The following tables present three-year trend information for the Board's Supplemental Retirement Plan for the fiscal year ending December 31:

	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 427,148	0%	\$ 1,633,119
2003	\$ 452,359	134%	\$ 1,480,428
2004	\$ 400,047	142%	\$ 1,310,759

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

Valuation as of January 1	Value of Assets	Actuarial Liability	Net Assets as a Percent of Actuarial Liability	Unfunded Actuarial Liability
2003	\$ 112,539	\$ 3,964,935	2.8%	\$ 3,852,396
2004	\$ 172,033	\$ 3,593,882	4.8%	\$ 3,421,849
2005	\$ 219,119	\$ 3,321,548	6.6%	\$ 3,102,429

**Postretirement Medical Benefit Plan**

In addition to pension benefits, the Board provides postretirement health care and life insurance benefits to all employees who retire under OPERS or OPSRP with at least 11 years of service. Currently, 392 retirees or surviving spouses of retired employees are covered under the plan. The life insurance benefit is a fixed amount of \$5,000 per retiree. Health care coverage reimburses 80% of the amount of validated claims for certain medical, dental, vision and hospitalization costs.

GASB No. 12, Disclosure of Information of Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers, discusses two methods for funding the above postretirement benefits. The method the Board continues to use is the "pay-as-you-go" method, resulting in recognized expenses in 2005 of approximately \$1,050,000 for the Electric System and \$171,000 for the Water System.

**Note 11 - Retirement Benefits (Continued)**

The alternative method would accrue expenses as incurred and allow the Board to fund a portion of the future postemployment costs in advance on an actuarially determined basis. Under this method, the 2004 total expense, as determined by an actuarial study dated January 1, 2005, the date of the last valuation, for both the Electric System and Water System would have been approximately \$4 million. The total actuarially determined health care liability for both systems as of January 1, 2005 was approximately \$31.7 million. The unit credit funding method was used to compute the liability and assumes a 6% discount rate and a 12.5% annual rate of increase in the per capita cost of covered health care benefits for 2005. This rate is assumed to decrease gradually to 6% in the year 2017 and remain at that level thereafter. A 1% increase in the assumed health care cost trend could have a material effect on net postretirement health care costs.

**Note 12 - Deferred Compensation**

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

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

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

**Note 13 - 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 Governmental Accounting Standard No. 14, *The Financial Reporting Entity*, the Project is reported as a joint venture on the equity method of accounting.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 13 - Trojan Nuclear Plant (Continued)**

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.

In 2005, the Board on behalf of the Project issued \$26,640,000 in revenue bonds with \$23,435,000 outstanding as of December 31, 2005. These bonds are secured solely by a pledge of the receipts from Trojan Project fees and charges associated with the Two-Party Net Billing Agreement with BPA. The bonds are considered conduit debt and as such are not required to be recorded in the financial statements of the Board.

A summary of the unaudited balance sheet for EWEB's share of the Trojan Project as of September 30, 2005 is as follows:

Assets	
Restricted cash and investments	\$ 717,762
Current assets	9,611,548
Long-term receivable, BPA, net	62,017,332
Deferred charges and other	542,006
Total assets	<u>\$ 72,888,648</u>
Liabilities	
Current liabilities	\$ 8,412,812
Long-term debt	15,321,041
Accumulated provision for decommissioning costs	49,154,795
Total liabilities	<u>\$ 72,888,648</u>

**Note 13 - Trojan Nuclear Plant (Continued)**

The Trojan Nuclear Plant financial statements, as required under bond resolutions, can be obtained from the Eugene Water & Electric Board.

**Note 14 - Commitments and Contingencies**

**Electric Projects**

At December 31, 2005, the Board had committed to an amendment to the Joint Operating Agreement with Weyerhaeuser Company to rebuild a turbine and replace a governor system at the Weyerhaeuser Paper Mill cogeneration facility. Over the life of the agreement, the expenses related to the project are expected to be approximately \$2,400,000.

**Carmen-Smith Relicensing**

On July 23, 2003, with the Notice of Intent to Re-license the Carmen-Smith Hydroelectric Project, the Electric System began the re-licensing process, which initially involves considerable effort regarding environmental impacts of the Project. The Board expects to spend \$3.2 million in years 2006-2008 to complete the requirements of the application.

**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. The purchased 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, which greatly reduces the cost of any single exposure (from \$50,000 to \$500,000 depending on the damages), so therefore, except in extreme cases, the Board's exposure is mitigated by law.

Claims liabilities recorded in the basic financial statements are based on the estimated ultimate loss and reserves for claims incurred as of the balance sheet date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported ("IBNR") claims. At December 31, 2005, a total claims liability of approximately \$220,000 is reported in the basic financial statements. All prior and current-year claims are fully reserved and have not been discounted.

**EUGENE WATER & ELECTRIC BOARD  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005**

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**Note 14 - Commitments and Contingencies (Continued)**

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2003	General liability	\$ 131,162	\$ 221,280	\$ (58,482)	\$ 293,960
2004	General liability	<u>\$ 293,960</u>	<u>\$ 164,260</u>	<u>\$ (103,950)</u>	<u>\$ 354,270</u>
2005	General liability	<u>\$ 354,270</u>	<u>\$ (23,918)</u>	<u>\$ (110,417)</u>	<u>\$ 219,935</u>

**Claims and Other Legal Proceedings**

The Board was a party to various litigation contending that parties, including the Board, bought and sold electric energy in the wholesale power markets during the California energy crisis charged unjust and/or unreasonable prices. Refund claims were asserted against the Board. On September 6, 2005, the U.S. Ninth Circuit Court of Appeals issued a ruling in the case of BPA et al v. FERC. The Ninth Circuit ruled that FERC does not have jurisdiction to impose refunds for wholesale transactions of government entities. If upheld, the Ninth Circuit ruling should eliminate for EWEB any potential refund obligation imposed by FERC. The ruling is subject to rehearing by the Ninth Circuit and possible appeal to the United States Supreme Court.

In 2003, EWEB enacted reforms in its post-retirement medical benefit plan that generally raised the contributions required for participation in the medical plan. In January 2005 EWEB received an adverse Lane County Circuit Court ruling on its reforms. EWEB is in the process of appealing the lawsuit and believes it will prevail. No provision has been made in the accompanying financial statements or note disclosures for this matter.

The Board is involved in various other litigation. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Board's financial position beyond amounts already accrued as of December 31, 2005.

**Environmental Matters**

The Board owns land near its headquarters, which is contaminated from a former manufactured gas plant. Under a participant agreement with other entities, the Board shares in 16-2/3% of the clean up costs. Based on a feasibility study conducted by environmental consultants and the Department of Environmental Quality's stated preferences for similar contaminations, \$666,400 is included with long-term liabilities as an estimate for clean up and maintenance of the site, which has yet to commence.

**SUPPLEMENTAL INFORMATION**

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**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC SYSTEM  
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION  
YEAR ENDED DECEMBER 31, 2005**

	Revenue Bonds 1996 Series 12-1-96		Refunding Revenue Bonds 1997 Series 11-4-97		Refunding Revenue Bonds 1998 Series 2-1-98	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 930,000	\$ 713,885	\$ 1,115,000	\$ 359,833	\$ 345,000	\$ 1,662,475
2007	975,000	668,315	1,165,000	309,658	435,000	1,647,640
2008	1,025,000	619,565	1,225,000	256,650	540,000	1,625,455
2009	1,080,000	567,290	1,285,000	199,075	650,000	1,597,915
2010	1,135,000	511,130	1,355,000	137,395	770,000	1,568,655
2011	1,195,000	450,975	1,420,000	71,000	895,000	1,533,245
2012	1,260,000	386,744	-	-	1,035,000	1,491,180
2013	1,325,000	319,019	-	-	1,190,000	1,442,018
2014	1,395,000	247,800	-	-	1,765,000	1,384,898
2015	1,475,000	169,680	-	-	2,030,000	1,300,178
2016	1,555,000	87,080	-	-	2,315,000	1,201,723
2017	-	-	-	-	2,635,000	1,085,973
2018	-	-	-	-	2,980,000	954,223
2019	-	-	-	-	3,350,000	805,223
2020	-	-	-	-	3,750,000	636,048
2021	-	-	-	-	4,190,000	446,673
2022	-	-	-	-	4,655,000	235,070
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
	<u>13,350,000</u>	<u>4,741,483</u>	<u>7,565,000</u>	<u>1,333,611</u>	<u>33,530,000</u>	<u>20,618,592</u>
Less curre	930,000	-	1,115,000	-	345,000	-
	<u>\$ 12,420,000</u>	<u>\$ 4,741,483</u>	<u>\$ 6,450,000</u>	<u>\$ 1,333,611</u>	<u>\$ 33,185,000</u>	<u>\$ 20,618,592</u>

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC SYSTEM  
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION  
YEAR ENDED DECEMBER 31, 2005**

	Revenue Bonds 1998 Series A 11-15-98		2001A Series Curent Interest 11-15-01		Revenue Bonds 2001 B Series 11-15-01	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 335,000	\$ 699,327	\$ 180,000	\$ 1,633,088	\$ 790,000	\$ 1,901,963
2007	355,000	679,696	260,000	1,621,712	820,000	1,870,363
2008	375,000	658,857	390,000	1,605,280	855,000	1,837,563
2009	400,000	636,657	510,000	1,580,632	890,000	1,803,363
2010	420,000	612,777	645,000	1,548,400	925,000	1,767,763
2011	450,000	586,653	790,000	1,507,636	960,000	1,730,763
2012	475,000	558,663	950,000	1,457,708	1,000,000	1,692,363
2013	505,000	529,118	1,125,000	1,397,668	1,040,000	1,652,363
2014	535,000	497,707	1,310,000	1,326,568	1,095,000	1,597,763
2015	570,000	464,430	1,520,000	1,243,776	1,155,000	1,540,275
2016	610,000	425,385	1,745,000	1,147,712	1,215,000	1,479,638
2017	650,000	383,600	1,990,000	1,037,428	1,275,000	1,415,850
2018	695,000	339,075	2,255,000	911,660	1,345,000	1,348,913
2019	740,000	291,468	2,545,000	769,144	1,415,000	1,278,300
2020	795,000	240,778	2,860,000	608,300	1,490,000	1,204,013
2021	850,000	186,320	3,200,000	427,548	1,565,000	1,125,788
2022	905,000	128,095	3,565,000	225,308	1,650,000	1,043,625
2023	965,000	66,099	867,106	3,097,894	1,735,000	957,000
2024	-	-	839,611	3,305,389	1,825,000	870,250
2025	-	-	814,720	3,520,280	1,915,000	779,000
2026	-	-	789,579	3,740,421	2,010,000	683,250
2027	-	-	756,540	3,913,460	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
	<u>10,630,000</u>	<u>7,984,705</u>	<u>29,907,556</u>	<u>37,627,012</u>	<u>38,625,000</u>	<u>31,385,169</u>
Less current	335,000	-	180,000	-	790,000	-
	<u>\$ 10,295,000</u>	<u>\$ 7,984,705</u>	<u>\$ 29,727,556</u>	<u>\$ 37,627,012</u>	<u>\$ 37,835,000</u>	<u>\$ 31,385,169</u>

**EUGENE WATER & ELECTRIC BOARD**

**ELECTRIC SYSTEM**

**LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION  
YEAR ENDED DECEMBER 31, 2005**

	Refunding Revenue Bonds 2002 A Series 5-7-02		Revenue Bonds 2002 B Series 5-22-02		Revenue and Refunding 2002 C Series 5-22-02	
	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 1,280,000	\$ 462,000	\$ 1,090,000	\$ 494,804	\$ 475,000
2007	1,350,000	394,800	1,145,000	441,666	495,000	500,119
2008	1,425,000	323,925	1,200,000	383,271	505,000	483,289
2009	1,500,000	249,113	1,265,000	320,871	530,000	464,351
2010	1,575,000	170,363	1,335,000	248,766	550,000	443,681
2011	1,670,000	87,675	1,415,000	171,336	575,000	420,994
2012	-	-	1,495,000	88,205	600,000	396,556
2013	-	-	-	-	620,000	370,756
2014	-	-	-	-	650,000	343,476
2015	-	-	-	-	680,000	314,226
2016	-	-	-	-	710,000	282,776
2017	-	-	-	-	740,000	249,051
2018	-	-	-	-	775,000	213,531
2019	-	-	-	-	815,000	175,750
2020	-	-	-	-	855,000	135,000
2021	-	-	-	-	900,000	92,250
2022	-	-	-	-	945,000	47,250
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
	<u>8,800,000</u>	<u>1,687,876</u>	<u>8,945,000</u>	<u>2,148,919</u>	<u>11,420,000</u>	<u>5,448,019</u>
Less current	1,280,000	-	1,090,000	-	475,000	-
	<u>\$ 7,520,000</u>	<u>\$ 1,687,876</u>	<u>\$ 7,855,000</u>	<u>\$ 2,148,919</u>	<u>\$ 10,945,000</u>	<u>\$ 5,448,019</u>

**EUGENE WATER & ELECTRIC BOARD  
ELECTRIC SYSTEM  
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION  
YEAR ENDED DECEMBER 31, 2005**

	Revenue and Refunding 2003 Series 6-10-03		Revenue 2005 Series 05-10-05		Total Electric System Payments		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
	2006	\$ 995,000	\$ 1,773,288	\$ 355,000	\$ 450,587	\$ 7,890,000	
2007	1,710,000	1,753,387	365,000	439,938	9,075,000	10,327,294	19,402,294
2008	1,770,000	1,702,088	375,000	428,987	9,685,000	9,924,930	19,609,930
2009	1,830,000	1,648,987	390,000	414,925	10,330,000	9,483,179	19,813,179
2010	1,890,000	1,594,088	405,000	400,300	11,005,000	9,003,318	20,008,318
2011	1,950,000	1,537,387	420,000	384,100	11,740,000	8,481,764	20,221,764
2012	2,035,000	1,459,388	440,000	366,250	9,290,000	7,897,057	17,187,057
2013	2,125,000	1,377,987	460,000	347,550	8,390,000	7,436,479	15,826,479
2014	2,200,000	1,292,988	480,000	326,850	9,430,000	7,018,050	16,448,050
2015	2,315,000	1,182,987	500,000	305,250	10,245,000	6,520,802	16,765,802
2016	2,435,000	1,067,238	525,000	282,750	11,110,000	5,974,302	17,084,302
2017	2,565,000	945,487	550,000	256,500	10,405,000	5,373,889	15,778,889
2018	2,695,000	817,238	570,000	234,500	11,315,000	4,819,140	16,134,140
2019	2,835,000	682,487	595,000	210,275	12,295,000	4,212,647	16,507,647
2020	2,985,000	540,738	615,000	184,988	13,350,000	3,549,865	16,899,865
2021	3,140,000	391,487	645,000	158,850	14,490,000	2,828,916	17,318,916
2022	3,300,000	234,488	675,000	129,825	15,695,000	2,043,661	17,738,661
2023	1,635,000	69,488	705,000	99,450	5,907,106	4,289,931	10,197,037
2024	-	-	735,000	67,725	3,399,611	4,243,364	7,642,975
2025	-	-	770,000	34,650	3,499,720	4,333,930	7,833,650
2026	-	-	-	-	2,799,579	4,423,671	7,223,250
2027	-	-	-	-	2,866,540	4,496,210	7,362,750
2028	-	-	-	-	2,215,000	477,250	2,692,250
2029	-	-	-	-	2,325,000	366,500	2,691,500
2030	-	-	-	-	2,440,000	250,250	2,690,250
2031	-	-	-	-	2,565,000	128,250	2,693,250
	<u>40,410,000</u>	<u>20,071,226</u>	<u>10,575,000</u>	<u>5,524,250</u>	<u>213,757,556</u>	<u>138,570,862</u>	<u>352,328,418</u>
Less current	995,000	-	355,000	-	7,890,000	-	7,890,000
	<u>\$ 39,415,000</u>	<u>\$ 20,071,226</u>	<u>\$ 10,220,000</u>	<u>\$ 5,524,250</u>	<u>\$ 205,867,556</u>	<u>\$ 138,570,862</u>	<u>\$ 344,438,418</u>

**EUGENE WATER & ELECTRIC BOARD  
WATER SYSTEM  
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION  
YEAR ENDED DECEMBER 31, 2005**

	Revenue Bonds Refunding 1997 Series 11-4-97		Revenue Bonds 2000 Series 1-1-00		Revenue Bonds 2002 Series 7-16-02		Revenue Bonds Refunding 2005 Series 7-26-05	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2006	\$ 905,000	\$ 41,178	\$ -	\$ 101,870	\$ -	\$ 406,101	\$ -
2007	-	-	450,000	101,870	460,000	406,101	-	532,455
2008	-	-	470,000	1,200,698	470,000	393,451	-	532,455
2009	-	-	495,000	1,176,023	490,000	378,764	-	532,455
2010	-	-	520,000	1,149,788	505,000	362,839	-	532,455
2011	-	-	-	-	525,000	345,164	415,000	532,455
2012	-	-	-	-	545,000	326,264	430,000	517,930
2013	-	-	-	-	570,000	305,826	445,000	502,880
2014	-	-	-	-	595,000	283,596	460,000	487,305
2015	-	-	-	-	620,000	259,796	475,000	470,055
2016	-	-	-	-	645,000	234,221	500,000	451,055
2017	-	-	-	-	675,000	206,809	520,000	426,055
2018	-	-	-	-	710,000	178,121	545,000	400,055
2019	-	-	-	-	740,000	147,059	570,000	372,805
2020	-	-	-	-	780,000	113,759	600,000	344,305
2021	-	-	-	-	815,000	77,879	630,000	320,305
2022	-	-	-	-	855,000	40,185	655,000	295,105
2023	-	-	-	-	-	-	675,000	268,905
2024	-	-	-	-	-	-	705,000	241,230
2025	-	-	-	-	-	-	735,000	212,149
2026	-	-	-	-	-	-	765,000	181,830
2027	-	-	-	-	-	-	800,000	148,552
2028	-	-	-	-	-	-	835,000	113,753
2029	-	-	-	-	-	-	870,000	77,430
2030	-	-	-	-	-	-	910,000	39,585
	<u>905,000</u>	<u>41,178</u>	<u>1,935,000</u>	<u>3,730,249</u>	<u>10,000,000</u>	<u>4,465,935</u>	<u>12,540,000</u>	<u>9,043,833</u>
Less current	905,000	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ 41,178</u>	<u>\$ 1,935,000</u>	<u>\$ 3,730,249</u>	<u>\$ 10,000,000</u>	<u>\$ 4,465,935</u>	<u>\$ 12,540,000</u>	<u>\$ 9,043,833</u>

**EUGENE WATER & ELECTRIC BOARD  
WATER SYSTEM  
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION  
YEAR ENDED DECEMBER 31, 2005**

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	Total Water System Payments		
	Principal	Interest	Totals
2006	\$ 905,000	\$ 1,059,418	\$ 1,964,418
2007	910,000	1,040,426	1,950,426
2008	940,000	2,126,604	3,066,604
2009	985,000	2,087,242	3,072,242
2010	1,025,000	2,045,082	3,070,082
2011	940,000	877,619	1,817,619
2012	975,000	844,194	1,819,194
2013	1,015,000	808,706	1,823,706
2014	1,055,000	770,901	1,825,901
2015	1,095,000	729,851	1,824,851
2016	1,145,000	685,276	1,830,276
2017	1,195,000	632,864	1,827,864
2018	1,255,000	578,176	1,833,176
2019	1,310,000	519,864	1,829,864
2020	1,380,000	458,064	1,838,064
2021	1,445,000	398,184	1,843,184
2022	1,510,000	335,290	1,845,290
2023	675,000	268,905	943,905
2024	705,000	241,230	946,230
2025	735,000	212,149	947,149
2026	765,000	181,830	946,830
2027	800,000	148,552	948,552
2028	835,000	113,753	948,753
2029	870,000	77,430	947,430
2030	910,000	39,585	949,585
	<u>25,380,000</u>	<u>17,281,195</u>	<u>42,661,195</u>
Less current	905,000	-	905,000
	<u>\$ 24,475,000</u>	<u>\$ 17,281,195</u>	<u>\$ 41,756,195</u>

AUDIT COMMENTS

(DISCLOSURES AND COMMENTS REQUIRED BY STATE REGULATIONS)

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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 AND ELECTRIC BOARD'S, COMPLIANCE AND CERTAIN ITEMS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH OREGON AUDITING STANDARDS**

January 26, 2006

To the Board of Commissioners  
Eugene Water & Electric Board

We have audited the accompanying financial statements of the Electric System and Water System of Eugene Water and Electric Board ("Board") as of and for the year ended December 31, 2005 and have issued our report thereon dated January 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

**Compliance**

As part of obtaining reasonable assurance about whether the Board'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 162-10-000 to 162-10-330, 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 structure.
- 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.

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Board’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

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



For Moss Adams LLP  
Certified Public Accountants