EWEB

Eugene Water & Electric Board

Independent Auditor's Reports and Financial Statements

December 31, 2011 and 2010

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Eugene Water & Electric Board

Board of Commissioners

Mr. John Brown, Wards 4 & 5, President

Mr. John Simpson, "At Large," Vice President

Mr. Bob Cassidy, Wards 2 & 3, Member

Ms. Joann Ernst, Wards 1 & 8, Member

Mr. Rich Cunningham, Wards 6 & 7, Member

Officers

Mr. Roger Gray, General Manager, Secretary

Ms. Debra Smith, Assistant Secretary

Ms. Catherine D. Bloom, Treasurer

Ms. Susan Eicher, Assistant Treasurer

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the accompanying balance sheets of the Electric System, Water System and Combined Total Systems of Eugene Water & Electric Board (the "Board") as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2011 and 2010, and the results of its individual and combined operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Julie DeSimone

For Moss Adams LLP
Portland, Oregon
February 13, 2012

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

The Eugene Water & Electric Board (EWEB or the Board) commenced operation in 1912 and is the largest publicly owned electric and water utility in Oregon. EWEB has ample power, from generation and purchase contracts, to serve area load. EWEB drinking water is obtained from the McKenzie River, a glacially fed source of the purest water available nationally. At the end of 2011, EWEB had 562 employees serving the Eugene community of approximately 157,000 persons, including the University of Oregon, as well as several surrounding areas outside of the city.

EWEB is an administrative unit of the City of Eugene, Oregon (the City) with responsibilities for operation of the water and electric utilities delegated by City Charter to the publicly elected board of five commissioners. The Board operates vertically integrated electric and water utilities with 87,400 electric and 45,900 water customers.

Financial Policies and Controls

EWEB's financial management system consists of financial policies, financial management strategies, and its internal control structure, including annual budgets and external audits of its financial statements. The Board has the exclusive right to determine rates and charges for services provided. Planning is guided by ten-year forecasts of financial assets and liabilities, operating activity, and capital asset requirements. These tools are used to identify the impacts of anticipated initiatives and to devise strategies to meet the Board's financial objectives.

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

	Fitch	Moody's	Standard & Poors
Electric System	AA-	Aa2	AA-
Water System	AA+	Aa2	AA

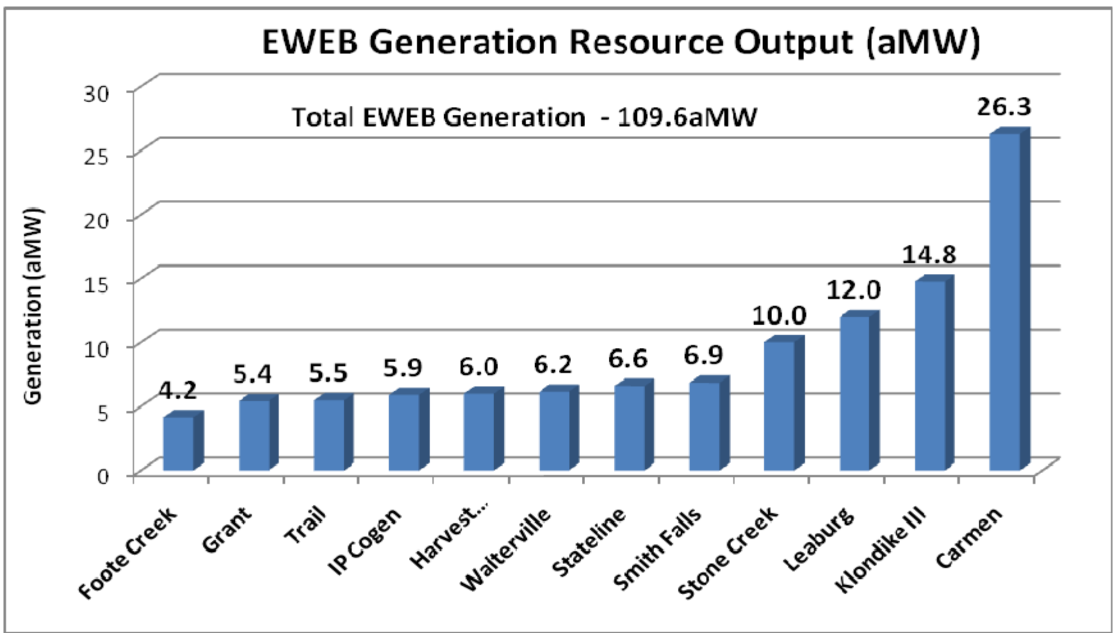
The following analysis, which looks separately at the Electric and Water Systems, focuses on financial position at December 31, 2011 and results of 2011 in comparison to 2010 and 2009, with an emphasis on 2011. Financial position reflects EWEB's assets, liabilities and net assets. Results are the activities during the year leading to net income or what is known for governmental entities as "changes in net assets."

Electric System

The Electric System serves a 234-square mile area, including the City and adjacent suburban areas. Power supply requirements are met primarily from hydroelectric sources, including self-generation and purchases from Bonneville Power Administration (BPA). Retail sales comprise approximately 67% of revenues with wholesale sales and regulatory credits accounting for 33% of revenues. Heating load and general economic conditions are the primary influences on retail sales.

EWEB sets budgets and power supply forecasts conservatively. Budgets assume that available water for generation will be 85% of the historical average. Water available for generation in 2011 was 106% of normal, well above the two preceding years (83% and 87% in 2010 and 2009, respectively).

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



All Generation Resources (in aMW): EWEB 110, BPA 348, Total 458

2011 Load: 284 aMW

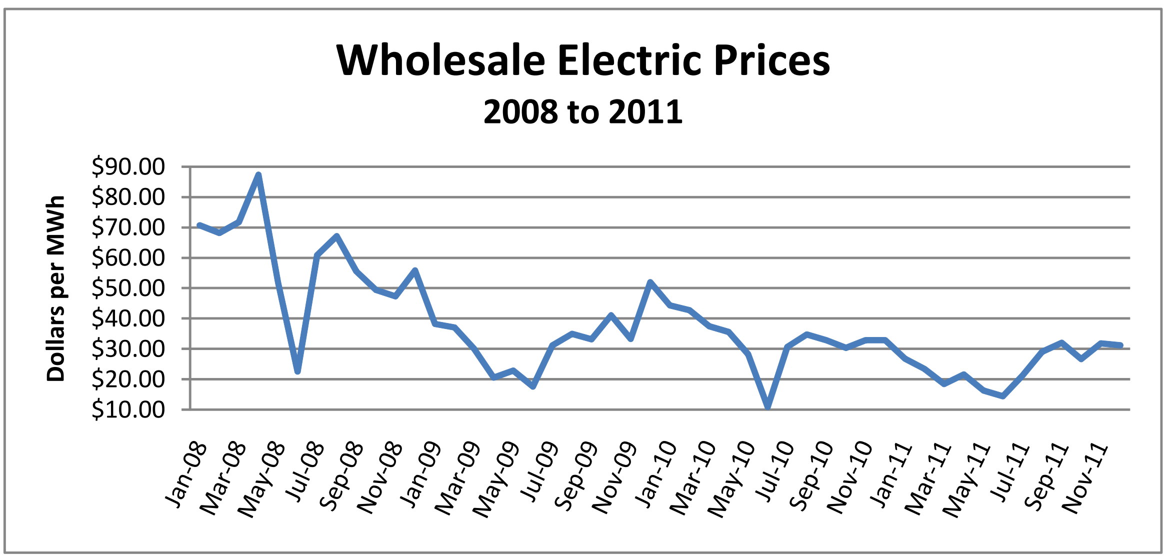
In October of 2011 EWEB started a new contract with BPA. Under the new contract EWEB lost approximately 45 aMW of power. A portion of power is provided as a "Slice of System" (Slice) product. The remainder of BPA power is obtained under a Block product. The Slice product provides a variable amount of power at a fixed price. The Block product provides a fixed amount of power at a fixed price. At critical water conditions (i.e., lowest on historical record) the Block and Slice output, together with

EWEB’s generation, is sufficient power to serve EWEB’s annual retail load, although the timing of generation does not match EWEB loads, necessitating purchases and sales to balance supply and load.

Financial Summary and Analysis

The Electric System held steady in overall financial performance during 2011with the change in net assets $2.7 million more than in 2010. Total assets at December 31, 2011 were approximately $31.5 million more than in 2010 due principally to $33.0 million in proceeds from the 2011 bond issuances. Total liabilities increased by $9.5 million during 2011, with new bond issuances adding to long-term debt, but with decreases in other liabilities, notably a reduction of $8.4 million in deferred revenue as Carmen Smith reserve funds were drawn down. Overall financial performance was positive, with total net assets increasing by $21.9 million. However, net regulatory credits from the recognition of deferred revenue from Carmen Smith reserve funds accounted for $8.4 million of the net asset increase.

Recovery from the depressed wholesale price environment did not occur in 2011. Wholesale unit sales increased in volume during 2011, up 62%, however, the revenue increase was a more modest 6% because of lower prices. In 2010 there was a similar pattern of higher volume but lower prices. During 2009, the dramatic decrease in operating revenue resulted from lower wholesale energy prices as well. All sales, both retail and wholesale, were negatively affected by the economic recession of 2008 and 2009. The graph below shows the overall downward trend in wholesale prices over the past three years as well as the volatility of those prices.



	2008	2009	2010	2011
Annual Price Average	*$ 59.17*	*$ 32.77*	*$ 32.48*	*$ 24.03*

Load (local consumption) increased just slightly (.6%) in 2011. Retail revenue was down $1.7 million for the commercial and industrial category, while sales to residential customers were up $7.1 million. Within residential rate classes, residential load was up 3.6% and commercial was up .6%, but large industrial, principally International Paper, decreased by 4.3%. Rate increases of 3.1% in May 2011 and 5.0% in November 2011, the latter to pass through BPA power cost increases, helped increase retail dollar revenues despite the negligible overall load change.

Overall, operating revenue was up $17.4 million from 2010. That increase was primarily a result of increases in wholesale and retail revenue, and recognition of previously deferred revenue. The deferred revenue is allowed under accounting standards involving utility rate-making environments where revenue from a previous year is used to cover costs incurred in later years, the intent of which is to match the revenue and expenses within a rate and reporting period. In 2007, $20 million of revenue generated was set aside in a reserve fund to support costs of relicensing the Board's Carmen-Smith Hydroelectric Generation Project. During 2011, $8.4 million was drawn from that reserve and recognized as regulatory credits in operating revenues. In 2010, $6.2 million was drawn from the same reserve.

Operating expenses, overall, were up $15.6 million. Power purchases increased $7.5 million due to BPA pass-through costs and other wholesale power market factors, and there was a $2.0 million increase in depreciation expense on an increased fixed asset base. Administrative and general expenses increased $2.1 million, $600,000 of that increase attributable to an increase in the unfunded actuarial liability expense for the Board's retirement plans. Other expense categories generally showed small increases compared to 2010.

Increases in income from equity investments in the Harvest Wind Project (up $1.0 million) and Western Generation Agency (up $750,000) accounted for most of the overall $2.5 million increase in other non-operating income.

Selected Financial Data

(in millions of dollars)

	2011	2010	2009
Operating revenues	$ 263	$ 245	$ 234
Operating expenses	(223)	(207)	(192)
Net operating income	40	38	42
Non-operating revenues	8	5	5
Non-operating expenses	(29)	(28)	(29)
Income before contributed capital	19	15	18
Contributed capital	3	4	1
Change in net assets	**$ 22**	**$ 19**	**$ 19**
Total assets	**$ 659**	**$ 628**	**$ 628**
Total liabilities	$ 333	$ 324	$ 343
Net assets			
Invested in capital assets, net of related debt	167	179	172
Restricted	17	13	8
Unrestricted	142	112	105
Total net assets	326	304	285
Total liabilities and net assets	**$ 659**	**$ 628**	**$ 628**

There were some significant shifts in the balance sheet for the Electric System during 2011. Bond funds increased by $4.4 million overall due to an addition of $4.5 million to the debt service reserve on issuance of the 2011 bonds. Debt service reserves are deposited in lieu of bond insurance. Also, construction funds showed a net increase of $20.6 million in the year, with $33.0 million of new bond proceeds used to reimburse for $10.6 million of Roosevelt Operations Center (ROC) costs previously incurred and with other draws for capital projects reducing the construction funds on hand at December 31, 2011 to $22.6 million.

Long-term debt increased by $29.0 million due to the 2011 bond issue of $33.0 million (new-money portion). Concurrently, debt payable within one year decreased by $3.8 million due to refunding of the 1998A and 2001B bond issues and deferral of principal payments on the 2011 bond issues until 2013.

The ROC was placed in service in November 2010 with an ending cost of $74.0 million. The Water System is repaying the Electric System for a portion of the facility's costs. $57.0 million was recorded in 2010 with general plant for the Electric System; $17.0 million was recorded to general plant for the Water System in 2010 with a corresponding capital lease obligation to the Electric System (and lease receivable on the Electric System's balance sheet).

Total plant in service increased $25.4 million in 2011, with significant additions consisting of several capital projects at the Carmen-Smith and Leaburg-Walterville hydro facilities totaling $11.1 million, and various improvements to the distribution system totaling $8.9 million. In 2010, plant in service increased by $83 million, primarily due to completion of the ROC (at $74 million) and $13 million in expenditures for transmission and distribution. Major additions in 2009 included $16 million for the distribution system and $3 million in upgrades at hydro facilities.

Construction work-in-progress at the end of 2011 was $9.0 million, compared to $29.3 million at the end of 2010. A large part of the decrease in 2011 was due to large hydro and distribution system improvements being completed and closed to plant during the year, leaving smaller projects in process at year-end. Among work in process at the end of 2011, there was most significantly, $2.9 million for substation modifications and additions. Of the $29.3 million in construction work-in-progress at the end of 2010, approximately $15 million were for hydro facility upgrades, $4 million for work at distribution substations, and $3 million for transmission projects among the more significant expenditures. Construction work-in-progress at the end of 2009 was approximately $69 million, primarily for the ROC.

Spending on the relicensing of Carmen-Smith totaled $6.5 million in 2011 and is included in preliminary investigations under the general asset category of deferred charges on the balance sheet. $5.0 million, which was part of plant in service in 2010, was presented as non-utility property (under non-current assets) in 2011.

Capital Assets

(in millions of dollars)

	2011	2010	2009
Production and land	$ 210	$ 209	$ 201
Transmission and distribution	311	288	275
General plant	150	149	87
Total utility plant in service	$ 671	$ 646	$ 563

Liabilities

(in millions of dollars)

	2011	2010	2009
Current liabilities	$ 42	$ 47	$ 92
Noncurrent liabilities	292	277	251
Total liabilities	**$ 334**	**$ 324**	**$ 343**

As discussed earlier with regard to increases in construction funds and debt, the Electric System issued a total of $75.2 million in revenue and refunding bonds in 2011, consisting of $33.0 million of new-money proceeds, with the balance of the issuance used to pay into the debt service reserve ($4.5 million), to pay costs of issuance, and to refund the 1998A and 2001 B bond issues.

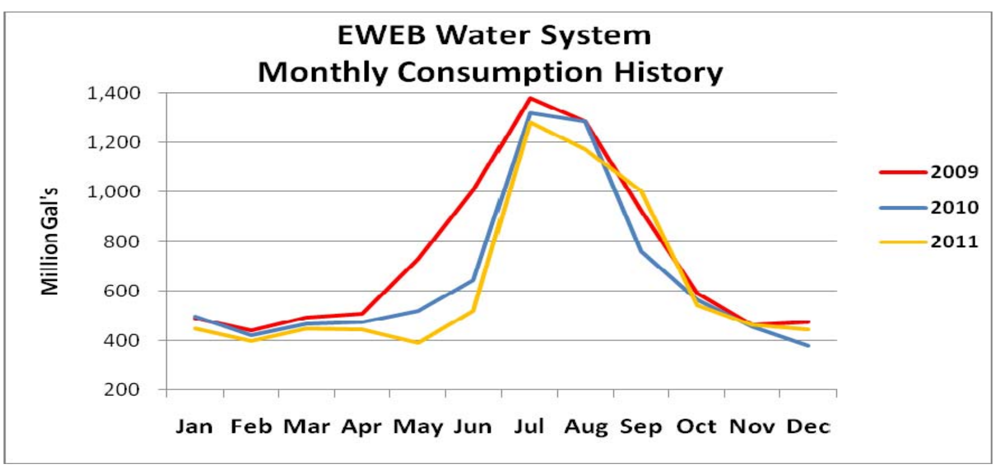
Water System

The Water System provides water to all areas within the city, and two water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, one of the largest treatment plants in Oregon. Water is pumped from the Hayden Bridge Filtration Plant into the distribution system through two large transmission mains. The water distribution system consists of 26 enclosed reservoirs with a combined storage capacity of 94 million gallons, 31 pump stations and approximately 800 miles of distribution mains.

Financial Summary and Analysis

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

During 2011, the Water System sold 7.5 billion gallons of water, 9% of which was to the water districts. This was approximately 260 million gallons less than the volume sold in 2010, a decrease due primarily to unusually mild conditions that predominated through much of the summer of 2011. Residential sales revenue was up 4% or $513,000, compared to 2010. Overall sales revenue was $1.2 million above that of 2010 because of rate increases in both May 2010 and 2011.



Yearly Consumption
(MGal's)

2009: 8,782
2010: 7,810
2011: 7,548

Operating expenses were up 13%, or $2.3 million. Depreciation expense was $1.1 million higher due to an increased fixed asset base. Also, transmission and distribution expenses were up $1.0 million over 2010. Non-operating revenues were comparable to 2010. Non-operating expenses increased by $900,000 due to interest costs resulting from the 2011 bond issue and a full year of interest expense on the Water System's capital lease obligation for the Roosevelt Operations Center. Contributed capital consisting of system development charges and contributions-in-aid were up collectively by $1.4 million reflecting a start of recovery from depressed construction levels over the last several years.

In terms of the bottom line, the change in net assets was $600,000 less than that of 2010. Because of this decrease, general operating reserves were fully drawn in 2011. What remained in operating reserves was $426,000 in designated funds for self-insurance and water stewardship, leaving little or no cushion in the event of another modest revenue year. The Water System is very cyclical, with a large part of its yearly rate revenues normally generated in the late spring, summer and early fall months. When such months have wet weather and/or moderate temperatures, as has happened in both 2010 and 2011, revenues and cash levels are significantly affected. The Water System has been able to offset decreased consumption in these years with yearly rate increases, which are also used for capital improvements and repairs.

Selected Financial Data

(in millions of dollars)

	2011	2010	2009
Operating revenues	$ 24.3	$ 23.1	$ 23.1
Operating expenses	(19.8)	(17.5)	(17.0)
Net operating income	4.5	5.6	6.1
Non-operating revenues	0.4	0.4	0.4
Non-operating expenses	(3.4)	(2.5)	(2.4)
Income before contributed capital	1.5	3.5	4.1
Contributed capital	3.0	1.6	1.4
Change in net assets	**$ 4.5**	**$ 5.1**	**$ 5.5**
Total assets	**$ 156.1**	**$ 134.0**	**$ 113.4**
Total liabilities	$ 76.0	$ 58.4	$ 42.8
Invested in capital assets, net of related debt	68.7	62.2	53.1
Restricted	4.6	4.3	5.0
Unrestricted	6.8	9.1	12.5
Total net assets	80.1	75.6	70.6
Total liabilities and net assets	**$ 156.1**	**$ 134.0**	**$ 113.4**

Total assets and total liabilities were both affected by the Water System's issuance of $17.3 million in bonds in 2011 to finance capital projects that are part of the capital improvement plan. There were $15.7 million in construction funds available at 2011 year-end resulting from the bond issue, and an additional $16.5 million in long-term debt.

Plant in service increased by $14.4 million during 2011, while construction work-in-process decreased by $1.6 million. In 2010, plant in service increased by $44.5 million and construction work-in-progress decreased by $16.2 million compared to 2009. Most significant plant activity in 2010 was for the Water System's share of ROC costs ($17.0 million) and Hayden Bridge filtration plant expansion ($12.0 million).

Significant plant additions in 2011 included $2.9 million for reservoir improvements, $1.9 million for Hayden Bridge filtration plant expansion, and $7.5 million in water main additions and improvements. Significant work-in-progress at 2011 year end included $500,000 for Hayden Bridge additions, $300,000 for water reservoir additions, and $1.2 million for water main relocations and improvements.

Capital Assets

(in millions of dollars)

	2011	2010	2009
Production and land	$ 53	$ 51	$ 38
Transmission and distribution	120	110	97
General plant	29	27	8
Total utility plant in service	$ 202	$ 188	$ 143

Liabilities

(in millions of dollars)

	2011	2010	2009
Current liabilities	$ 6	$ 4	$ 4
Noncurrent liabilities	70	54	39
Total liabilities	$ 76	$ 58	$ 43

At year-end, the Water System had nearly $50 million of revenue bonds outstanding compared to $35 million in 2010 and $36 million in 2009.

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

Outlook

When the economy went into recession, the Board increased its level of assistance through its EWEB's Community and Customer Care programs. Given the continued slow economic recovery from that recession, the Board plans to continue the same level of assistance in 2012.

Both utility systems issued bonds during 2011 to cover the cost of long-term assets within each system's capital improvement plans and, in the Electric System, to derive interest savings by refinancing two prior issues. Both systems are anticipating the need for rate increases prompted by their current operating environments. For the Water System, impacts are primarily a projected operating deficit and a need to restore its operating reserve; for the Electric System, its new long-term power purchase agreements provide less power. The Electric System is also continuing to experience depressed prices for wholesale sales of its power.

A license approval from the Federal Energy Regulatory Commission for the Board's Carmen-Smith Hydroelectric Project had been anticipated for 2011, but is now expected in 2012. Corresponding construction under the license requirements will begin after license approval, with an anticipated bond issue providing the funds for such construction.

BALANCE SHEETS
December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
ASSETS						
Capital Assets						
Utility plant in service	$ 671,221,179	$ 645,819,607	$ 202,097,894	$ 187,657,436	$ 873,319,073	$ 833,477,043
Less accumulated depreciation	323,249,470	314,644,968	84,466,388	79,854,069	407,715,858	394,499,037
Net utility plant in service	347,971,709	331,174,639	117,631,506	107,803,367	465,603,215	438,978,006
Property held for future use	562,088	789,172	968,578	989,578	1,530,666	1,778,750
Construction work in progress	9,013,384	29,323,065	3,312,633	4,897,948	12,326,017	34,221,013
Net utility plant	357,547,181	361,286,876	121,912,717	113,690,893	479,459,898	474,977,769
Current assets						
Debt service reserves	7,222,265	2,807,938	2,346,981	1,511,778	9,569,246	4,319,716
Customer deposit and other	5,278,653	4,821,669	-	-	5,278,653	4,821,669
Harvest Wind escrow accounts	2,203,685	2,232,275	-	-	2,203,685	2,232,275
Construction funds	19,527,497	1,978,392	13,702,079	-	33,229,576	1,978,392
System development charge reserves	-	-	1,692,004	2,261,390	1,692,004	2,261,390
Investments for bond principal and interest	8,619,556	9,693,661	1,536,682	1,175,935	10,156,238	10,869,596
Restricted cash and investments	42,851,656	21,533,935	19,277,746	4,949,103	62,129,402	26,483,038
Cash and cash equivalents	5,926,962	3,487,506	1,128,725	1,103,034	7,055,687	4,590,540
Short-term investments	14,458,735	4,854,602	-	-	14,458,735	4,854,602
Designated cash and investments						
Power and rate stabilization reserves	33,097,561	38,376,134	-	-	33,097,561	38,376,134
Capital improvement reserve	7,114,815	6,751,640	3,671,263	6,167,465	10,786,078	12,919,105
Carmen-Smith reserve	6,944,050	15,321,499	-	-	6,944,050	15,321,499
Operating reserve	4,244,387	7,325,445	426,300	695,218	4,670,687	8,020,663
Pension and medical reserve	7,606,344	5,123,062	-	-	7,606,344	5,123,062
Receivables, less allowances	35,878,644	32,744,654	2,080,935	1,813,675	37,959,579	34,558,329
Interest receivable, Water	223,846	156,103	-	-	-	-
Note receivable, Water	207,277	207,277	-	-	-	-
Lease receivable, Water	385,967	404,623	-	-	-	-
Materials and supplies	2,653,190	2,433,024	618,667	559,378	3,271,857	2,992,402
Prepaids	2,904,884	2,932,997	365,137	594,727	3,270,021	3,527,724
Option premiums short-term	2,461,168	3,574,356	-	-	2,461,168	3,574,356
	124,107,830	123,692,922	8,291,027	10,933,497	131,581,767	133,858,416
Total current assets	166,959,486	145,226,857	27,568,773	15,882,600	193,711,169	160,341,454

See accompanying notes.

Continued

BALANCE SHEETS
December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
ASSETS (continued)						
Non-current assets						
Investments						
Construction funds - restricted	$ 3,099,260	$ -	$ 2,035,020	$ -	$ 5,134,280	$ -
Power, rate stabilization - designated	5,603,865	-	-	-	5,603,865	-
Unrestricted	1,019,000	-	-	-	1,019,000	-
Prepaid retirement obligation	13,849,160	14,793,421	3,040,069	3,247,346	16,889,229	18,040,767
Receivables, conservation and other	4,661,825	4,032,937	5,133	-	4,666,958	4,032,937
Note receivable, Water	3,040,057	3,247,334	-	-	-	-
Lease receivable, Water	16,778,024	16,948,947	-	-	-	-
Investment in WGA	753,374	-	-		753,374	-
Investment in Harvest Wind	28,387,913	29,019,224	-	-	28,387,913	29,019,224
Non-utility property	5,023,582	-	157,130	-	5,180,712	-
Deferred charges						
Preliminary investigations	29,436,700	22,899,190	-	-	29,436,700	22,899,190
Conservation assets	3,020,691	4,479,567	-	-	3,020,691	4,479,567
Derivatives at fair value	8,147,261	13,279,074	-	-	8,147,261	13,279,074
Option premiums long-term	729,640	1,380,960	-	-	729,640	1,380,960
Other deferred charges	11,417,238	11,416,174	1,375,154	1,248,661	12,792,392	12,664,835
Total non-current assets	134,967,590	121,496,828	6,612,506	4,496,007	121,762,015	105,796,554
Total assets	$ 659,474,257	$ 628,010,561	$ 156,093,996	$ 134,069,500	$ 794,933,082	$ 741,115,777

Note: Inter-system note, lease and interest receivable and payable are eliminated in the total systems columns.

See accompanying notes.

Continued

BALANCE SHEETS
December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
LIABILITIES						
Current liabilities						
Payables	$ 22,659,044	$ 25,612,952	$ 2,322,296	$ 1,185,071	$ 24,981,340	$ 26,798,023
Accrued payroll and benefits	4,183,139	3,383,075	560,975	571,679	4,744,114	3,954,754
Interest payable	250,538	259,057	-	-	250,538	259,057
Note payable	1,132,386	1,080,666	-	-	1,132,386	1,080,666
Interest payable, Electric	-	-	223,846	156,103	-	-
Note payable, Electric	-	-	207,277	207,277	-	-
Capital lease obligation, Electric	-	-	385,967	404,623	-	-
Payable from restricted assets						
Accrued interest on long-term debt	4,920,986	4,540,883	964,693	662,254	5,885,679	5,203,137
Long-term debt due within one year	8,420,000	12,345,000	1,270,000	1,225,000	9,690,000	13,570,000
Total current liabilities	41,566,093	47,221,633	5,935,054	4,412,007	46,684,057	50,865,637
Non-current liabilities						
Long-term debt	273,130,600	244,116,962	49,857,110	33,436,940	322,987,710	277,553,902
Note payable, Electric	-	-	3,040,057	3,247,334	-	-
Capital lease obligation, Electric	-	-	16,778,024	16,948,947	-	-
Derivatives at fair value	7,986,823	13,279,074	-	-	7,986,823	13,279,074
Other liabilities	3,909,469	3,643,332	377,085	388,958	4,286,554	4,032,290
Deferred revenue	6,944,050	15,321,508	-	-	6,944,050	15,321,508
Deferred credit - WGA	-	432,839	-	-	-	432,839
Total liabilities	333,537,035	324,015,348	75,987,330	58,434,186	388,889,194	361,485,250
NET ASSETS						
Invested in capital assets, net of related debt	166,802,145	179,492,915	68,723,392	61,471,004	235,525,537	240,963,919
Restricted	16,608,839	12,563,283	4,610,974	4,286,849	21,219,813	16,850,132
Unrestricted	142,526,238	111,939,015	6,772,300	9,877,461	149,298,538	121,816,476
Total net assets	325,937,222	303,995,213	80,106,666	75,635,314	406,043,888	379,630,527
Total liabilities and net assets	$ 659,474,257	$ 628,010,561	$ 156,093,996	$ 134,069,500	$ 794,933,082	$ 741,115,777

Note: Inter-system note, lease and interest receivable and payable are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
Residential	$ 88,541,584	$ 81,444,152	$ 12,906,833	$ 12,393,682	$ 101,448,417	$ 93,837,834
Commercial and industrial	87,377,642	89,067,350	10,751,584	10,130,637	98,129,226	99,197,987
Sales for resale and other	78,769,510	70,501,316	703,008	629,783	79,472,518	71,131,099
Regulatory credits - net	8,377,458	4,678,492	-	-	8,377,458	4,678,492
Operating revenues	263,066,194	245,691,310	24,361,425	23,154,102	287,427,619	268,845,412
Purchased power	112,273,708	104,733,727	-	-	112,273,708	104,733,727
System control	6,631,846	5,349,353	-	-	6,631,846	5,349,353
Wheeling	12,309,123	11,338,656	-	-	12,309,123	11,338,656
Steam and hydraulic generation	13,622,711	12,812,542	-	-	13,622,711	12,812,542
Transmission and distribution	17,960,947	17,551,747	7,110,844	6,091,645	25,071,791	23,643,392
Source of supply, pumping and purification	-	-	3,077,816	2,986,333	3,077,816	2,986,333
Customer accounting	10,107,118	9,961,660	1,240,979	1,263,520	11,348,097	11,225,180
Conservation expenses	9,185,095	8,917,022	382,746	352,877	9,567,841	9,269,899
Administrative and general	22,869,289	20,774,328	3,373,067	3,310,375	26,242,356	24,084,703
Depreciation on utility plant	17,954,546	15,915,385	4,662,285	3,532,985	22,616,831	19,448,370
Operating expenses	222,914,383	207,354,420	19,847,737	17,537,735	242,762,120	224,892,155
Net operating income	40,151,811	38,336,890	4,513,688	5,616,367	44,665,499	43,953,257
Investment earnings	932,114	1,364,966	78,580	35,704	1,010,694	1,400,670
Interest earnings, Water	1,197,175	496,900	-	-	-	-
Allowance for funds used during construction	90,922	228,083	34,187	88,547	125,109	316,630
Other revenue	5,922,530	3,647,547	310,650	288,542	6,233,180	3,936,089
Non-operating revenues	8,142,741	5,737,496	423,417	412,793	7,368,983	5,653,389

Note: Inter-system interest earnings and expenses are eliminated in the total systems columns.

See accompanying notes.

Continued

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
Surplus revenue payments	13,624,591	13,513,357	-	-	13,624,591	13,513,357
Other revenue deductions	3,113,291	2,771,432	262,303	315,546	3,375,594	3,086,978
Interest expense and related amortization	13,050,882	12,677,526	2,041,333	1,780,486	15,092,215	14,458,012
Interest expense, Electric	-	-	1,197,175	496,900	-	-
Allowance for borrowed funds used during construction	(81,619)	(183,713)	(21,300)	(39,200)	(102,919)	(222,913)
Non-operating expenses	29,707,145	28,778,602	3,479,511	2,553,732	31,989,481	30,835,434
Income before capital contributions	18,587,407	15,295,784	1,457,594	3,475,428	20,045,001	18,771,212
Contributions in aid of construction	2,833,510	3,904,813	757,114	635,888	3,590,624	4,540,701
Contributed plant assets	469,248	19,806	1,480,306	297,269	1,949,554	317,075
Capital grants	51,844	-	-	-	51,844	-
System development charges	-	-	776,338	657,434	776,338	657,434
Capital contributions	3,354,602	3,924,619	3,013,758	1,590,591	6,368,360	5,515,210
Change in net assets	21,942,009	19,220,403	4,471,352	5,066,019	26,413,361	24,286,422
Total net assets at beginning of year	303,995,213	284,774,810	75,635,314	70,569,295	379,630,527	355,344,105
Total net assets at end of year	$ 325,937,222	$ 303,995,213	$ 80,106,666	$ 75,635,314	$ 406,043,888	$ 379,630,527

Note: Inter-system interest earnings and expenses are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 251,164,483	$ 240,885,012	$ 24,188,201	$ 23,082,018	$ 275,352,684	$ 263,967,030
Other receipts	3,351,213	3,084,593	272,340	289,319	3,623,553	3,373,912
Power purchases	(106,596,629)	(106,215,573)	-	-	(106,596,629)	(106,215,573)
Payments to employees	(34,034,197)	(32,677,290)	(8,690,022)	(8,250,032)	(42,724,219)	(40,927,322)
Payments to suppliers	(61,397,637)	(55,218,396)	(5,702,406)	(5,502,093)	(67,100,043)	(60,720,489)
Surplus revenue payments	(12,182,429)	(13,401,587)	-	-	(12,182,429)	(13,401,587)
Net cash from operating activities	40,304,804	36,456,759	10,068,113	9,619,212	50,372,917	46,075,971
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(214,702,277)	(199,723,133)	(30,392,148)	(12,246,198)	(245,094,425)	(211,969,331)
Proceeds from sale and maturities of investments	186,104,476	251,316,111	17,084,946	10,696,204	203,189,422	262,012,315
Interest on investments	2,567,671	2,789,008	(104,860)	68,786	2,462,811	2,857,794
Additions to equity interest in Harvest Wind	(336,188)	(263,710)	-	-	(336,188)	(263,710)
Distributions from equity investment in Harvest Wind	1,875,217	12,956,446	-	-	1,875,217	12,956,446
Distributions from equity investment in WGA	273,695	372,854	-	-	273,695	372,854
Net cash from investing activities	(24,217,406)	67,447,576	(13,412,062)	(1,481,208)	(37,629,468)	65,966,368
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Note receipts/(payments) to Electric from Water	207,277	207,277	(207,277)	(207,277)	-	-
Interest receipts/(payments) to Electric from Water	1,129,432	496,900	(1,129,432)	(496,900)	-	-
Lease receipts/(payments) to Electric from Water	328,345	65,797	(328,345)	(65,797)	-	-
Proceeds from long-term note	-	34,000,000	-	-	-	34,000,000
Note issuance costs	-	(169,958)	-	-	-	(169,958)
Principal payments	(1,080,666)	(43,604,597)	-	-	(1,080,666)	(43,604,597)
Interest payments	(1,450,139)	(1,089,293)	-	-	(1,450,139)	(1,089,293)
Net cash from non-capital financing activities	(865,751)	(10,093,874)	(1,665,054)	(769,974)	(2,530,805)	(10,863,848)

Note: Inter-system note, lease and interest receipts and payments are eliminated in the total systems columns.

See accompanying notes.

Continued

STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	Electric System 2011	Electric System 2010	Water System 2011	Water System 2010	Total Systems 2011	Total Systems 2010
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from issuance of bonds	80,454,661	-	17,520,454	-	97,975,115	-
Principal payments	(54,025,000)	(11,610,000)	(1,225,000)	(1,295,000)	(55,250,000)	(12,905,000)
Bond issuance costs	(700,871)	-	(151,423)	-	(852,294)	-
Additions to utility plant, net	(22,996,821)	(67,441,378)	(10,920,620)	(10,483,775)	(33,917,441)	(77,925,153)
Interest payments	(11,127,155)	(11,469,374)	(1,589,409)	(1,646,813)	(12,716,564)	(13,116,187)
Additions to preliminary surveys and other	(7,687,205)	(4,372,722)	-	-	(7,687,205)	(4,372,722)
Contributed capital	3,354,602	3,924,619	1,561,546	1,293,322	4,916,148	5,217,941
Net cash from capital and related financing activities	(12,727,789)	(90,968,855)	5,195,548	(12,132,266)	(7,532,241)	(103,101,121)
CHANGE IN CASH AND CASH EQUIVALENTS	2,493,858	2,841,606	186,545	(4,764,236)	2,680,403	(1,922,630)
CASH AND CASH EQUIVALENTS, beginning of year	26,293,904	23,452,298	8,788,665	13,552,901	35,082,569	37,005,199
CASH AND CASH EQUIVALENTS, end of year including cash and cash equivalents restricted or designated: $22,860,800 and $7,846,485 ($22,806,398 and $7,685,631 in 2010) for Electric and Water, respectively.	$ 28,787,762	$ 26,293,904	$ 8,975,210	$ 8,788,665	$ 37,762,972	$ 35,082,569

NON-CASH CAPITAL ACTIVITY:
In 2011, plant assets contributed by developers were $469,248 for the electric system, and $1,480,306 for the water system ($19,806 for the electric system, and $297,269 for the water system in 2010)

Note: Inter-system note, lease and interest receipts and payments are eliminated in the total systems columns.

See accompanying notes.

Continued

STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	Electric System		Water System		Total Systems	
	2011	2010	2011	2010	2011	2010
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Net operating income	$ 40,151,811	$ 38,336,890	$ 4,513,688	$ 5,616,367	$ 44,665,499	$ 43,953,257
Adjustments to reconcile net operating income to net cash from operating activities						
Depreciation, net	17,954,546	15,934,941	4,662,285	3,532,985	22,616,831	19,467,926
Surplus revenue payments	(12,182,429)	(13,401,587)	-	-	(12,182,429)	(13,401,587)
Other revenue	5,756,780	3,790,679	281,460	288,542	6,038,240	4,079,221
Other revenue deductions		-	(231,518)	(230,061)	(231,518)	(230,061)
(Income) loss from Harvest Wind	(907,718)	(159,031)	-	-	(907,718)	(159,031)
(Income) from WGA	(1,459,908)	(695,822)	-	-	(1,459,908)	(695,822)
(Increase) decrease in assets						
Receivables	(3,183,077)	291,902	(182,344)	(27,759)	(3,365,421)	264,143
Materials and supplies	(220,166)	32,693	(59,289)	122,038	(279,455)	154,731
Prepayments and special deposits	1,141,301	(503,304)	229,591	(232,591)	1,370,892	(735,895)
Conservation loans, net	918,477	850,625	(37,096)	5,407	881,381	856,032
Long-term receivables, other	(1,308,712)	(220,914)	-	-	(1,308,712)	(220,914)
Prepaid retirement obligation	944,260	944,261	207,277	207,264	1,151,537	1,151,525
Deferred charges	6,240,042	(10,284,953)	17,069	447,026	6,257,111	(9,837,927)
Increase (decrease) in liabilities						
Accounts payable, accrued payroll and benefits	(136,831)	(3,886,512)	678,863	(42,006)	542,032	(3,928,518)
Deferred revenue	(8,377,458)	(4,678,492)	-	-	(8,377,458)	(4,678,492)
Other liabilities	(5,026,114)	10,171,180	(11,873)	(68,000)	(5,037,987)	10,103,180
Net cash from operating activities	$ 40,304,804	$ 36,522,556	$ 10,068,113	$ 9,619,212	$ 50,372,917	$ 46,141,768

See accompanying notes.

Note 1 – Summary of significant accounting policies

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

The Board provides energy and water service to residential, commercial and industrial customers located in a 234 square mile area, including the City of Eugene and adjacent suburban areas. The Board has the authority to fix rates and charges. In order to secure power resources, the Board has taken ownership of various generation facilities. In addition, the Board has entered into joint ventures, whereby it has taken 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.

Eliminations
Notes, interest receivable and payable between the Electric and Water Utilities and related interest earnings and expense are eliminated in the Total Systems columns of the financial statements.

Method of Accounting
The Board maintains its accounting records in accordance with accounting principles generally accepted in the United States of America. The Board applies accounting and reporting standards of the GASB, exclusively.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Utility Plant in Service and Depreciation
Utility plant is stated at original cost. Costs include labor, materials and related indirect costs, such as engineering, transportation and allowance for funds (i.e. interest) used during construction. Additions, renewals and betterments with a minimum cost of $5,000 or greater per item are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property and any removal cost is charged to accumulated depreciation when property is retired. The estimated useful lives of assets are those used commonly in the utility industry or they are based on the Board's experience with similar assets. Depreciation is computed using straight-line group rates.

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

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

Restricted Assets
Cash and investments which are restricted by provisions of bond resolutions and agreements with other parties are identified as restricted assets. When the restricted assets are expendable within the terms of the agreements, it is the Board's policy to spend restricted resources first, then unrestricted resources as needed.

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

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

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

Preliminary Investigations
At December 31, 2011, the Electric System had $29.4 million in deferred costs for the preliminary investigation of projects it believes will be viable in the future. Most of the balance was for preconstruction relicensing costs of the Carmen-Smith Project ($22.9 million at December 31, 2010).

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

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

- **Conservation Assets**
  Conservation assets for the Electric System represent installations of energy saving measures at the properties of its customers. The deferred balance is reduced as costs are recovered, which for the most part represent debt service payments included in rates for related borrowing. Conservation assets are amortized as other revenue deductions on the statements of revenues, expenses and changes in net assets.

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

- **Sick Leave**
  Employees achieving length of service and age requirements are paid 25% of their accrued sick leave upon retirement. The estimated liability for all future retirements is included in equivalent amounts with Other Deferred Charges and Other Liabilities. The obligation is expensed as Administrative and General costs as payments occur. Retail rates include an estimate of these payments on an annual basis.

- **Net Pension Obligation**
  A net pension obligation for the Board’s supplemental retirement plan is included in equivalent amounts with Other Deferred Charges and Other Liabilities.

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

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

(Regulatory deferrals, continued)

- **Deferred Revenue**

  Revenues obtained through current rates attributable to significant associated costs to be incurred in the future, are deferred (a decrease in operating revenue) and later recognized (an increase to operating revenue) during the periods when the associated costs are incurred. At December 31, 2007, $20 million in revenue for the relicensing of Carmen-Smith was deferred to future periods when those costs will be incurred. For the year ended December 31, 2011, $8.4 million was recognized as revenue ($4.7 million for 2010) and included with "Regulatory credits – net."

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

Net Assets
Net assets consist of:

- **Invested in capital assets, net of related debt** are capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** net assets have constraints placed on their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted** net assets are remaining amounts that are neither "restricted" nor "invested in capital assets, net of related debt."

Net assets are as follows:

	2011				2010			
	Electric System		Water System		Electric System		Water System	
Invested in capital assets, net of related debt	$	166,802,145	$	68,723,392	$	179,492,915	$	61,471,004
Restricted for:								
Capital projects		111,612		-		66,453		-
Customer deposits		2,487,280		-		1,475,146		-
Customer care program		923,180		-		699,567		-
Early retiree reinsurance program		212,785		-		-		-
Harvest Wind escrow		2,203,685		-		2,232,275		-
System development charges		-		1,692,004		-		2,261,390
Western Generation Agency		-		-		388,183		-
Debt service		10,670,297		2,918,970		7,701,659		2,025,459
		16,608,839		4,610,974		12,563,283		4,286,849
Unrestricted		142,526,238		6,772,300		111,939,015		9,877,461
	$	325,937,222	$	80,106,666	$	303,995,213	$	75,635,314

Operating Revenue

Operating revenues are recorded on the basis of service delivered. Revenues are derived primarily from the sale and transmission of electricity and from the sale of water. Revenue is recognized when the power or water is delivered to and received by the customer. Approximately 8% of 2011 Electric System's retail revenues were the result of sales to one industrial customer (11% of retail sales were the result of sales to one customer in 2010). Estimated revenues are accrued for power and water deliveries not yet billed to customers from meter reading dates prior to month end (unbilled revenue).

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

Revenues are recorded net of the allowance for doubtful accounts. The allowance is determined by an examination of write off experience in the preceding five years, and consideration of other influences as appropriate. Total amounts written off for the year ended December 31, 2011 were $388,000 ($374,000 for 2010) for the Electric System, and $35,000 ($40,000 for 2010) for the Water System.

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

Surplus Revenue Payments
In accordance with ORS 225.270, the Electric System makes surplus revenue payments to the City of Eugene at the rate of 6% of retail sales and 17% of net margin on certain wholesale sales. The Board makes surplus revenue payments to the City of Springfield at the rate of 3% of retail sales for customers that lie within the boundaries of the City of Springfield. Total surplus revenue payments for the year ended December 31, 2011 were $13.6 million ($13.5 million for 2010).

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

Note 2 – Power Risk Management

The Board’s Power Risk Management Guidelines set forth policies, limits and control systems governing power and fuel purchase and sales activities for the Electric System. The objectives of such policies are to maximize benefits to the customers from wholesale activities while minimizing the risk that wholesale activities will adversely affect retail prices. The Board does not enter into contracts for speculative purposes. During periods when resources are in excess of retail load, the Board may sell excess capacity into the wholesale markets, and is exposed to commodity price risk. The Board enters into forward contracts intended to manage the price risk associated with power sales in the wholesale market.

Derivative Financial Instruments
In accordance with policy guidelines, the Board utilizes derivative instruments to minimize its exposure to commodity price risk. Hedging derivatives are reported on the balance sheet at fair value. The fair value of options and swaptions are determined using the Black formula. The fair value of financial swaps is determined by comparing the contract prices with the forecasted market prices.

All potential hedging derivatives were evaluated for effectiveness using the consistent critical terms method. A derivative instrument is effective under criteria for consistent critical terms when the significant terms of the hedging instrument and the hedgeable item are alike. The significant terms for hedging derivatives are the time period, quantity, price index, and point of delivery.

As of December 31, 2011, the total fair value of hedging derivatives was a net liability of $2.0 million. Hedging derivatives with a fair value of $3.0 million were reported as an other asset and deferred inflow. Hedging derivatives with a fair value of $5.0 million were reported as other liabilities and deferred outflow. Changes in fair value are reported as an increase or decrease in the other asset or liability balance and deferred inflows or outflows until the time of settlement. When hedging derivatives settle, the deferral balance is recorded as either purchased power or wholesale sales.

Investment Derivatives

Hedging derivatives that are found through testing to be ineffective are classified as investment derivatives. At that time, the fair value, including any fair value changes that had previously been deferred on the balance sheet, are recorded as investment revenue and a deferred inflow or outflow. When the underlying trades settle, the settled amounts are recorded as investment revenue, net of deferred inflows and outflows. For the year ended December 31, 2011, $160,000 had been recognized as investment revenue from derivatives ($224,200 for 2010).

	Hedging Derivatives		Investment Derivatives	
	2011	2010	2011	2010
	Options and swaps	Options and swaps	Options and swaps	Options and swaps
Notional value	$ 2,796,622	$ 4,932,706	$ 3,204,064	$ -
Fair value - asset	$ 2,988,028	$ 4,996,166	$ 302,800	$ -
Fair value - liability	$ 4,984,922	$ 9,318,458	$ 13,873	$ -
Reference rates	Mid-C index	Mid-C index	Mid-C index	Mid-C index
Dates entered into	7/10 through 12/11	2/09 through 12/10	11/10 through 7/11	n/a
Dates of maturity	1/12 through 12/13	1/11 through 6/12	1/11 through 4/12	n/a
Cash paid	$ 2,804,008	$ 4,955,316	$ 161,200	$ -

Credit Risk

The Board enters into forward purchase and sale contracts for electricity and natural gas with utilities and marketers. The Board is exposed to credit risk related to the possibility of non-performance by its counterparties. To limit the risk of counterparty default or non-performance, the Board uses an evaluation process that assigns an internal measure of credit worthiness to the Board's counterparties and sets limits to the dollar value of business that can be transacted with counterparties. The Board generally chooses not to do business with counterparties with credit risk ratings that would indicate that cash collateral deposits would be required. On a case by case basis, the Board may require letters of credit or other assurances in lieu of cash collateral. Other assurances may include accelerated invoicing or pre-payment. The Board enters into master netting agreements with most counterparties. The Board's counterparties are concentrated in the wholesale energy marketing and trading sector and the banking sector, which comprise 70% and 30%, respectively of all derivative instruments.

(Note 2 - Power Risk Management, continued)

(Derivative financial instruments, continued)

Sector	Maximum possible loss	
Wholesale energy marketing and trading	$	2,435,814
Banking	$	1,048,394
Credit rating		A2 through B3

Termination Risk

Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include the non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years 2011 and 2010, there were no terminations.

Note 3 – Utility plant

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

Electric Utility Plant

	Depreciable Life-Years	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Land	n/a	$ 7,218,527	$ 1,014,208	$ (427,091)	$ 7,805,644
Steam production	10-25	20,500,105	-	(5,906,820)	14,593,285
Hydro production	36-50	166,119,658	8,316,038	-	174,435,696
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	63,325,301	10,789,872	-	74,115,173
Distribution	28.5	224,946,111	12,744,012	(418,288)	237,271,835
General plant	3-50	150,622,723	8,372,265	(9,082,624)	149,912,364
Total utility plant in service		645,819,607	41,236,395	(15,834,823)	671,221,179
Accumulated depreciation		(314,644,968)	(19,031,957)	10,427,455	(323,249,470)
Plant not subject to depreciation:					
Property held for future use		789,172	-	(227,084)	562,088
Construction work in progress		29,323,065	18,466,139	(38,775,820)	9,013,384
Net utility plant		$ 361,286,876	$ 40,670,577	$ (44,410,272)	$ 357,547,181

	Depreciable Life-Years	Balance at December 31, 2009	Increases	Decreases	Balance at December 31, 2010
Land	n/a	$ 4,979,799	$ 2,238,728	$ -	7,218,527
Steam production	10-25	20,408,321	91,784	-	20,500,105
Hydro production	36-50	162,883,055	3,236,603	-	166,119,658
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	60,151,292	3,174,009	-	63,325,301
Distribution	28.5	214,757,396	10,696,895	(508,180)	224,946,111
General plant	3-50	86,731,437	64,336,563	(445,277)	150,622,723
Total utility plant in service		562,998,482	83,774,582	(953,457)	645,819,607
Accumulated depreciation		(298,710,026)	(16,900,647)	965,705	(314,644,968)
Plant not subject to depreciaton:					
Property held for future use		789,172	-	-	789,172
Construction work in progress		60,832,394	63,929,228	(95,438,557)	29,323,065
Net utility plant		$ 325,910,022	$ 130,803,163	$ (95,426,309)	$ 361,286,876

(Note 3 - Utility plant, continued)

Water Utility Plant

	Depreciable Life -Years	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Land	n/a	$ 1,475,145	$ 21,576	$ (28,709.00)	$ 1,468,012
Structure	50	39,606,244	1,630,298	(37,979)	41,198,563
Pumping	20	8,915,963	259,891	-	9,175,854
Purification	25	1,252,909	-	-	1,252,909
Transmission	28.5	17,279,063	65,343	-	17,344,406
Reservoirs	50	22,416,702	1,432,004	-	23,848,706
Distribution	28.5	52,267,997	7,131,916	-	59,399,913
Services, meters and hydrants	20-28.5	17,048,320	2,339,393	(106,456)	19,281,257
General plant	3-50	27,395,093	2,016,343	(283,163)	29,128,274
Total utility plant in service		187,657,436	14,896,764	(456,306)	202,097,894
Accumulated depreciation		(79,854,069)	(4,895,224)	282,905	(84,466,388)
Plant not subject to depreciation:					
Property held for future use		989,578	-	(21,000)	968,578
Construction work in progress		4,897,948	10,913,205	(12,498,520)	3,312,633
Net utility plant		$ 113,690,893	$ 20,914,745	$ (12,692,921)	$ 121,912,717

	Depreciable Life -Years	Balance at December 31, 2009	Increases	Decreases	Balance at December 31, 2010
Land	n/a	$ 1,429,371	$ 45,774	$ -	$ 1,475,145
Structure	50	26,749,448	12,856,795	-	39,606,243
Pumping	20	7,984,363	931,600	-	8,915,963
Purification	25	1,252,909	-	-	1,252,909
Transmission	28.5	17,279,063	-	-	17,279,063
Reservoirs	50	20,482,101	1,934,601	-	22,416,702
Distribution	28.5	44,144,039	8,123,958	-	52,267,997
Services, meters and hydrants	20-28.5	15,468,401	1,667,345	(87,426)	17,048,320
General plant	3-50	8,380,797	19,014,297	-	27,395,094
Total utility plant in service		143,170,492	44,574,370	(87,426)	187,657,436
Accumulated depreciation		(76,157,391)	(3,784,104)	87,426	(79,854,069)
Plant not subject to depreciation:					
Property held for future use		989,578	-	-	989,578
Construction work in progress		21,147,888	9,480,406	(25,730,346)	4,897,948
Net utility plant		$ 89,150,567	$ 50,270,672	$ (25,730,346)	$ 113,690,893

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

Note 4 – Cash and investments

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

Restricted Cash and Investments

- **Customer deposits and other** - Used to account for 1) deposits collected from retail and wholesale power customers and held for future refund or application to customer account balances, 2) donations to the Customer Care Program, and 3) receipt of funds under the Early Retiree Reinsurance Program (ERRP) established by the Federal Patient Protection and Affordable Care Act.

- **Harvest Wind escrow accounts -** Funds include amounts held in escrow and related to EWEB’s investment in the Harvest Wind Project (the Project), consisting of funds held back and deposited to escrow from the receipt of Federal energy grant funds in 2010, and a deposit in lieu of letter of credit with regard to the Project’s transmission contract with Klickitat PUD.

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

- **System development charge reserves** - Used to account for charges assessed and collected in conjunction with installation of new water services in the Water System and are restricted by State of Oregon Statutes to system enhancements and other related capital expenditures.

- **Debt service reserves** - Deposits held for debt service coverage pursuant to bond indentures and in lieu of, or replacing, bond sureties.

- **Investments for bond principal and interest -** Used to account for cash and investments which are restricted by Bond Indentures of Trust for future payment of principal and interest on debt.

(Note 4 - Cash and investments, continued)

Designated Cash and Investments

- **Power and rate stabilization reserves -** Used to account for cash and investments which the Board has designated to reserve for fluctuations in purchased power costs, load, and generation levels.

- **Capital improvement reserve -** Used to account for cash and investments which the Board has designated to reserve for capital improvements.

- **Carmen-Smith reserve** - Used to account for cash and investments which the Board has designated to reserve for relicensing and construction costs at the Carmen-Smith Hydroelectric Project.

- **Operating reserve -** Used to account for cash and investments which the Board has designated to maintain balances in the general account within target levels for payments of emergency operating costs, self-insured claims, loans to Steam Utility customers as part of transitioning those customers off of steam heat, funds set aside for the EWEB headquarters master plan, and for a water stewardship reserve.

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

Deposits with financial institutions are comprised of bank demand deposits and savings accounts. The total bank balances, as recorded in bank records at December 31, 2011, were $14.9 million. Of the bank balances, $500,000 were covered by federal depository insurance and $14.4 million were collateralized with securities.

Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, a depositor will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits not covered by depository insurance are exposed to custodial credit risk when collateral for deposits is held by the pledging institution or its trust department or agency, but not in the name of the depositor. Within the Public Funds Collateralization Program (PFCP) in Oregon, securities pledged by financial institutions are required to be held in the name of the pool, and, therefore, cannot be in the Board’s name. However, provided an entity is recognized by the PFCP administrator as an entity covered by the pool, balances in excess of FDIC are covered by the collateral of the pool.

The Board’s investments during the year, which included obligations of the U.S. Government, are authorized by State of Oregon Statutes and bond resolution and by the Board’s investment policy. Authorized investments include the Oregon Local Government Investment Pool (LGIP), US Treasury securities, US Government Agency securities, public funds money market accounts, corporate commercial paper and bonds, and other investments enumerated in and authorized by ORS 294.035.

The LGIP is included in the Oregon Short Term Fund (OSTF), which was established by the State Treasurer. OSTF is not subject to SEC regulation. OSTF is subject to requirements established in Oregon Revised Statutes, investment policies adopted by the Oregon Investment Council, and portfolio guidelines established by the OSTF Board. The Governor appoints the members of the Oregon Investment Council and OSTF Board. The fair value of the Board's position in the pool is the same as the value of the pool shares.

As of December 31, 2011, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	$ 27,415,620	0.51	18%
U.S. Agency Securities				
FHLB		20,390,174		14%
FNMA		7,342,716		5%
FHLMC		40,392,895		27%
FFCB		11,053,279		8%
FAMCA		12,109,550		8%
Other Agency		10,371,918		7%
Subtotal US Agency	AA	101,660,532	0.97	69%
Corporate Bonds	AA	19,050,733	0.46	13%
Subtotal all securities		120,711,265	0.88	82%
Total		$ 148,126,885	0.81	100%

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

(Note 4 - Cash and investments, continued)

As of December 31, 2010, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	$ 28,859,043	0.47	26%
U.S. Treasury and Agency Securities				
FHLB	AAA	15,251,404		14%
FNMA	AAA	27,668,342		25%
FHLMC	AAA	11,693,831		11%
FFCB	AAA	8,478,319		8%
Other Agency	AAA	8,355,314		8%
US Treasury Note	n/a	2,003,280		2%
Subtotal US Treasury and Agency		73,450,490	0.56	68%
Municipal Security-ODOT	AAA	1,040,230	0.86	1%
Corporate Bonds	AA	6,115,354	0.42	6%
Subtotal all securities		80,606,074	0.55	74%
Total		$ 109,465,117	0.53	100%

Concentration risk is the risk that when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. This does not apply for pooled investments or investments directly in the US government. ORS 294.035 limits investment in any single issuer of bonds to 5% of a portfolio; there is not a limit for investment in US Agencies. Many government-sponsored agency securities are not backed by the full faith and credit of the US government, including those held by the Board, although market participants widely believe that the government would provide financial support to an agency if the need arose. The Board does not have a policy for investment concentration in those agencies. Regarding the LGIP, with the exception of pass-through funds, the maximum amount of pooled investments to be placed in the pool is limited by ORS 294.810 to $ 43.9 million as of December 31, 2011.

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 changes in interest rates, the Board's investment policy limits at least 75% of its investment portfolio to maturities of less than 18 months. Investment maturities are limited as follows:

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

Custodial credit risk for investments is 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 because they are neither insured nor registered and they are held by the counterparty or the counterparty's trust department or agent, but not in the investor's name. The Board had a money market investment with Umpqua Bank which was exposed to this risk: $2.4 million at December 31, 2011, and $2.4 million at December 31, 2010. The Board does not have a policy that prohibits this investment. All of the aforementioned investments, except for the investment with Umpqua Bank, and the investments in the LGIP, which are not evidenced by securities, are held in the Board's name by a third-party custodian.

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

(Note 4 - Cash and investments, continued)

Cash and investments consisted of the following:

	Restricted Cash and Investments	Cash and Cash Equivalents and Short-term investments	Designated Funds	2011 Total Carrying Amount	2010 Total Carrying Amount
ELECTRIC SYSTEM					
Cash on hand	$ -	$ 12,560	$ -	$ 12,560	$ 12,500
Cash in bank	2,616,631	5,001,192	2,454,891	10,072,714	5,813,594
Investments in the State of Oregon local government investment pool	8,221,643	913,210	9,599,086	18,733,939	20,467,810
Investments - US Agencies and Corp.	35,112,642	15,477,735	52,557,045	103,147,422	76,479,919
Total electric system	45,950,916	21,404,697	64,611,022	131,966,635	102,773,823
WATER SYSTEM					
Cash in bank	293,530	-	-	293,530	397,432
Investments in the State of Oregon local government investment pool	5,285,983	1,128,725	2,266,973	8,681,681	8,391,233
Investments - US Agencies and Corp.	15,733,253		1,830,590	17,563,843	4,126,155
Total water system	21,312,766	1,128,725	4,097,563	26,539,054	12,914,820
	$ 67,263,682	$ 22,533,422	$ 68,708,585	$ 158,505,689	$ 115,688,643

Note 5 – Receivables

Significant receivables were as follows:

	2011		2010	
	Electric System	Water System	Electric System	Water System
Current receivables				
Accounts receivable	$ 30,476,968	$ 1,964,371	$ 29,957,088	$ 1,785,469
Allowance for doubtful accounts	(236,823)	(27,450)	(181,069)	(21,773)
Net accounts receivable	30,240,145	1,936,921	29,776,019	1,763,696
Conservation loans to customers	2,168,220	60,161	1,795,732	28,198
Steam transition loans to customers	857,318	-	-	-
Interest receivable	497,213	73,291	516,452	20,338
Miscellaneous receivables	1,928,881	10,562	445,191	1,443
Note receivable (BPA)	186,867	-	211,260	-
Receivables, less allowances	$ 35,878,644	$ 2,080,935	$ 32,744,654	$ 1,813,675
Long-term receivables				
Conservation loans to customers, net	$ 1,753,523	$ 5,133	$ 2,672,000	$ -
Steam transition loans to customers	1,551,471	-	-	-
Note receivable (BPA)	297,156	-	539,915	-
Interest receivable (WGA)	1,059,675	-	821,022	-
Long-term receivables, conservation and other	$ 4,661,825	$ 5,133	$ 4,032,937	$ -

Note 6 – Payables

Current payables were as follows:

	2011		2010	
	Electric System	Water System	Electric System	Water System
Accounts payable	$ 17,620,387	$ 821,291	$ 15,902,035	$ 837,638
Construction payables	317,387	402,701	3,745,160	204,378
Cash position/due to Electric System	-	823,963	-	-
Surplus revenue payments	1,442,162	-	1,412,117	-
Customer deposits	1,591,937	-	2,646,956	-
Equipment purchases	292,375	249,333	-	-
Miscellaneous payables	327,875	25,008	1,189,619	143,055
Preliminary investigations payables	1,066,921	-	717,065	-
Total payables	$ 22,659,044	$ 2,322,296	$ 25,612,952	$ 1,185,071

Note 7 – Other deferred charges and other liabilities

Other deferred charges and other liabilities were as follows:

	2011		2010	
	Electric System	Water System	Electric System	Water System
Other deferred charges				
Unamortized bond expense	$ 2,741,533	$ 965,162	$ 2,828,814	$ 793,507
Joint-use equipment	77,489	32,907	90,418	66,196
Fair value of renewable energy certificates	963,158	-	1,172,284	-
Prepaid transmission expense - Harvest Wind	1,677,590	-	1,774,841	-
Unamortized organizational costs - Harvest Wind	80,035	-	163,549	-
Regulatory assets				
Sick leave - upon retirement	1,137,936	249,790	1,192,024	261,663
Net pension obligation - supplemental retirement plan	579,902	127,295	579,902	127,295
Accreted interest - capital appreciation bonds	4,159,595	-	3,614,342	-
Other deferred charges	$ 11,417,238	$ 1,375,154	$ 11,416,174	$ 1,248,661
Other liabilities				
Unearned rent revenue	$ -	$ -	$ 198,450	$ -
Environmental clean up	953,000	-	254,000	-
Member deposits - Public Agency Network	275,473	-	246,672	-
Fair value of renewable energy certificates	963,158	-	1,172,284	-
Regulatory liabilities				
Sick leave - upon retirement	1,137,936	249,790	1,192,024	261,663
Net pension obligation - supplemental retirement plan	579,902	127,295	579,902	127,295
Other liabilities	$ 3,909,469	$ 377,085	$ 3,643,332	$ 388,958

Note 8 – Investment in WGA/deferred credit - WGA

The Board is a party to an Intergovernmental Agency, which is governed equally by the Board and Clatskanie PUD. The Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling $15.1 million, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. In October 2006, the Agency accomplished a refunding of its debt, which allowed the Board to be repaid a significant portion of its remaining equity investment ($10.4 million was repaid in 2006). The balance of the original investment at December 31, 2006 was $2.2 million, and it remained the same at the end of 2011. Repayment of the equity investment is not due until the Agency's Series C 2006 debt is paid off, and as it is further contingent upon the successful operation of the Project, it is not guaranteed. Should the Project fail to generate sufficient revenues, the repayment of the equity contribution may occur only in part or not at all. At December 31, 2011, the Board had a receivable in the amount of $1.1 million ($821,000 at December 31, 2010) for cumulative preferred dividend on the remaining equity investment; revenue is included with investment earnings.

The investment in Western Generation Agency consists of the balance of the initial equity contribution, 50% of the Agency's net income and losses, and distributions from excess cash. The balance of the investment as of December 31, 2011 was $753,000. Because the Project Agreements allow distributions in excess of the Agency's equity, the investment at December 31, 2010 was a negative balance reflected as a deferred credit on the Board's Balance Sheets. Under bond agreements, distributions to the Board are limited to $400,000 per year. During 2011, distributions of $274,000 were received (and $373,000 was received in 2010).

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

Note 9 – Investment in Harvest Wind

The Board is a party to a joint ownership agreement, whereby the Board made an equity investment in the Harvest Wind project, a 98.9 megawatt wind generating facility located in Klickitat County, Washington. The Board's ownership share of Harvest Wind is 20%. Other owners are Peninsula Light Co., 20%, Cowlitz PUD, 30%, and Lakeview Light & Power, 30%. Commercial operations began on December 15, 2009.

During 2009, the joint owners of Harvest Wind elected to classify the project as an association taxable as a corporation. At the time of the election, all project assets were treated as contributed to the corporation. The corporation received a 4% share, and the joint owners received shares in proportion to their ownership. Owners share in power output, income and expenses according to their ownership shares.

The investment in Harvest Wind consists of the Board's share of the costs to develop the project, 20% of the Project's net income and losses, and any preferred distributions. At December 31, 2011, the Board recognized investment in Harvest Wind of $28.4 million ($29.0 at December 31, 2010) including estimated income of $972,000 (income of $64,000 in 2010) and distributions of $14.8 million.

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

Under the terms of a payment agreement, the Board has deposited $1,340,000 from 2010 distributions in an escrow account to ensure payment of its share of contingent liabilities of the corporation. If no such contingencies occur, the funds will be released from escrow.

Under the terms of a transmission agreement, the Board has $860,000 on deposit in an escrow account to ensure the payment of monthly transmission interconnection expenses.

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

Note 10 – Long term debt

Bonds and notes payable were as follows:

	2011	2010
Electric Utility System Revenue and Refunding Bonds		
1998 Series A, 11-15-98 issue (refunded 6-29-11)		
Term Bonds, 6.22% - 6.85%, due 2010-2023	$ -	$ 8,295,000
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2010-2022	22,115,000	23,065,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556	4,067,556
2001 Series B, 11-15-01 issue (refunded 6-29-11)		
Serial Bonds, 4.00% - 5.25%, due 2010-2022	-	14,245,000
Term bonds, 5.00%, due 2023-2031	-	19,140,000
2002 Series B, 6-1-02 issue		
Serial bonds5.70% - 5.90%, due 2010-2012	-	1,495,000
2002 Series C, 6-1-02 issue		
Serial Bonds 3.90% - 5.00%, due 2010-2022	7,690,000	8,290,000
2003 Series, 6-10-03 issue		
Serial Bonds 3.00% - 5.00%, due 2010-2023	28,230,000	30,265,000
2005 Series, 5-10-05 issue		
Serial Bonds, 3.75% - 5.0%, due 2010-2020	4,295,000	4,735,000
Term bonds, 4.50%, due 2021 & 2025	3,530,000	3,530,000
2006 Series, 8-24-06 issue		
Serial Bonds 4.00% - 4.50%, due 2010-2026	10,095,000	10,605,000
2008 Series A, 7-17-08 issue		
Serial bonds 4.00% - 5.00%, due 2010-2028	32,075,000	33,495,000
Term bonds, 5.00%, due 2029-2033	15,995,000	15,995,000
2008 Series B, 7-17-08 issue		
Serial Bonds 4.00% - 5.00%, due 2010-2022	27,975,000	28,945,000
2011 Series A, 6-08-11 issue		
Serial Bonds 3.00% - 5.00%, due 2013-2032	51,835,000	-
Term Bonds, 5.00%, due 2033-2040	14,375,000	-
2011 Series B, 6-08-11 issue		
Serial Bonds 1.00% - 4.35%, due 2013-2023	9,000,000	-
	231,277,556	206,167,556
Add unamortized premium	7,782,218	3,245,402
Add accreted interest	4,159,595	3,614,342
Less unamortized refunding costs	(1,106,120)	(1,030,853)
Less unamortized discount	(164,999)	(194,222)
Electric System bonds payable, long-term portion	241,948,250	211,802,225
Add current portion	8,420,000	12,345,000
Electric System bonds payable	250,368,250	224,147,225
Junior lien loan payable to Bank of America, Harvest Wind Project	31,182,350	32,314,737
Add current portion	1,132,386	1,080,666
Electric System bonds and note payable	$ 282,682,986	$ 257,542,628

(Note 10 - Long-term debt, continued)

	2011	2010
Water Utility System Revenue and Refunding Bonds		
2002 Series, 8-1-02 issue, Serial Bonds 3.25% - 4.70%, due 2010-2022	$ 7,005,000	$ 7,550,000
2005 Series, 8-16-05 issue		
Serial Bonds, 3.50% - 5.00%, due 2011-2025	7,515,000	7,945,000
Term bonds, 4.35%, due 2030	4,180,000	4,180,000
2008 Series, 7-17-08 issue		
Serial Bonds, 4.00% - 5.00%, due 2010-2026	5,750,000	6,045,000
Term bonds, 4.50% - 5.25%, due 2027-2038	8,755,000	8,755,000
2011 Series, 6-29-11 issue		
Serial Bonds, 2.00% - 4.25%, due 2014-2031	9,365,000	-
Term bonds, 4.50% - 5.00%, due 2032-2040	7,935,000	-
	50,505,000	34,475,000
Add unamortized premium	465,300	173,069
Less unamortized discount	(103,104)	(113,249)
Less unamortized refunding costs	(1,010,086)	(1,097,880)
Water System bonds payable, long-term portion	49,857,110	33,436,940
Add current portion	1,270,000	1,225,000
Water System bonds payable	51,127,110	34,661,940
Note payable to Electric, long-term portion		
11-15-01 issue, 6.32% - 7.21%, due 2010-2027	3,040,057	3,247,334
Add current portion	207,277	207,277
Water System bonds and note payable to Electric	54,374,444	38,116,551
Less inter-system payable	3,247,334	3,454,611
Total Systems long-term debt	$ 333,810,096	$ 292,204,568

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

	2011 Fair Value	2010 Fair Value
Electric System	$ 273,979,528	$ 233,249,072
Water System	55,183,931	36,489,131
	$ 329,163,459	$ 269,738,203

The schedule of maturities for principal and interest on bonded debt and note payable is as follows:

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2012	$ 8,420,000	$ 11,810,375	$ 1,270,000	$ 2,315,263
2013	9,580,000	11,113,948	1,325,000	2,203,471
2014	11,085,000	10,706,569	1,780,000	2,151,716
2015	11,800,000	10,169,501	1,840,000	2,088,166
2016	12,645,000	9,628,803	1,920,000	2,016,551
2017 - 2021	78,105,000	37,730,082	10,855,000	8,859,646
2022 - 2026	50,451,016	33,123,843	9,495,000	6,684,017
2027 - 2031	32,966,540	14,835,315	9,655,000	4,678,120
2032 - 2036	16,760,000	3,791,000	7,835,000	2,712,000
2037 - 2040	7,885,000	1,009,750	5,800,000	653,211
	$ 239,697,556	$ 143,919,186	$ 51,775,000	$ 34,362,161

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply. The principal and interest requirements are reflected in the supplementary schedule “Long-Term Bonded Debt and Interest Payment Requirements.” To comply with sinking fund deposit requirements, the Board deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest earnings. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1. At December 31, 2011 and 2010, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

In May 2010, the Board secured a $34.0 million junior lien credit facility with Bank of America in the form of a five year loan (due May 20, 2015) requiring semi-annual payments of principal and interest at an annual interest rate of 4.73%. The loan paid off the balance of the outstanding line of credit with Bank of America secured to provide preliminary financing for EWEB’s share of the Harvest Wind Project, and provided additional funding for completion of the Project.

In June 2011, the Board issued $66.2 million in Electric Utility Revenue and Refunding Serial and Term Bonds with interest rates from 3.00% to 5.00%, maturing from 2013 through 2040, with an effective yield of 4.21%, for capital projects pursuant to the Electric Utility Capital Plan, to reimburse for the balance of costs for the Roosevelt Operations Center, and to refund the Series 2001B Revenue and

(Note 10 - Long-term debt, continued)

Refunding Bonds. The net difference in aggregate debt service between refunding and refunded debt was $1.5 million, with a net economic gain of $3.4 million.

In June 2011, the Board also issued $9.0 million in Electric Utility Revenue Refunding Serial Bonds refunding the Series 1998A Electric Utility Revenue Bonds, with interest rates ranging from 1.00% to 4.35%, maturing from 2013 through 2023, with an effective yield of 3.79%, a net difference in aggregate debt service between refunding and refunded debt of $1.2 million, and a net economic gain of $1.5 million.

In June 2011, the Board issued $17.3 million in Water Utility Revenue Serial and Term Bonds, with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2040, with an effective yield of 4.41%, for capital projects pursuant to the Water Utility Capital Plan.

Long-term debt activity for the year ended December 31, 2011 was as follows:

	Outstanding January 1, 2011	Issued During Year	Redeemed During Year	**Outstanding December 31, 2011**
Electric Revenue Bonds, with interest rates from 3.0% to 6.85%, maturing through 2033 (original issue $267,005,000)	$ 116,635,000	$ -	$ (46,780,000)	$ 69,855,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue $158,245,000)	73,955,000	75,210,000	(6,455,000)	142,710,000
Electric Revenue Current Interest Bonds, with interest rate of 6.32%, maturing through 2027 (original issue $29,997,556)	27,922,556	-	(790,000)	27,132,556
Electric Note Payable, with interest rate of 4.73%, maturing in 2015 (original issue $34,000,000)	33,395,403	-	(1,080,666)	32,314,736
Total Electric System	251,907,959	75,210,000	(55,105,666)	272,012,292
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2030 (original issue $19,155,000)	12,540,000	-	(415,000)	12,125,000
Water Revenue Bonds, with interest rates from 2.75% to 5.30%, maturing through 2040 (original issue $64,300,000)	23,160,000	17,300,000	(810,000)	39,650,000
Total Water System	35,700,000	17,300,000	(1,225,000)	51,775,000
Total bonded debt	$ 287,607,959	$ 92,510,000	$ (56,330,666)	$ 323,787,293

Long-term debt activity for the year ended December 31, 2010 was as follows:

	Outstanding January 1, 2010	Issued During Year	Redeemed During Year	Outstanding December 31, 2010
Electric Revenue Bonds, with interest rates from 3.0% to 6.85%, maturing through 2033 (original issue $267,005,000)	$ 121,510,000	$ -	$ (4,875,000)	$ 116,635,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue $158,245,000)	80,045,000	-	(6,090,000)	73,955,000
Electric Revenue Current Interest Bonds, with interest rate of 6.32%, maturing through 2027 (original issue $29,997,556)	28,567,556	-	(645,000)	27,922,556
Electric Note Payable, with interest rate of 4.73%, maturing in 2015 (original issue $34,000,000)	-	34,000,000	(604,597)	33,395,403
Total Electric System	230,122,556	34,000,000	(12,214,597)	251,907,959
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2030 (original issue $19,155,000)	12,540,000	-	-	12,540,000
Water Revenue Bonds, with interest rates from 2.75% to 5.30%, maturing through 2038 (original issue $47,000,000)	24,455,000	-	(1,295,000)	23,160,000
Total Water System	36,995,000	-	(1,295,000)	35,700,000
Total Long Term debt	$ 267,117,556	$ 34,000,000	$ (13,509,597)	$ 287,607,959

Note 11 – Roosevelt Operations Center lease

The Electric System has financed the acquisition and construction of the Board's Roosevelt Operations Center consisting of land, buildings, equipment and personal property placed into service November 2010. Both the Electric and Water Systems occupy the property. A direct financing lease beginning November 1, 2010 represents the economic substance of an arrangement whereby the Water System will repay the Electric System for the cost to create what is determined to be the Water System's share of the property, and also assume all of the economic benefits and risks of ownership. Future minimum lease payments were estimated to cover the fair value of the Water System's share of the property, and associated financing costs incurred by the Electric System without gain to the Electric System. The transaction was recorded in equal amounts as Plant in Service and a Capital Lease Obligation for the Water System along with depreciation expense and a lease receivable for the Electric System.

Lease payments are revised for refinancing of underlying contributions made by the Electric System. The amount financed by the lease is also revised for capitalized improvements at the facility if they are financed by the Electric System. As of December 31, 2011, minimum lease payments were $99,000 through year 2035, and $13,000 for years 2036 through 2040 on a capitalized value of $17.6 million. As of December 31, 2010, lease payments were $1.1 million each year through 2035 on a capitalized value of $17.4 million.

Note 12 – Power supply resources

Bonneville Power Administration

- **Bonneville Power Administration Contracts**
  A new contract was signed on December 4, 2008 that provides power to EWEB from October 1, 2011 through September 30, 2028. The Board reselected a combination of both Block and Slice of System power products from those offered by Bonneville Power Administration (BPA) in the previous contract which ended September 30, 2011. While Slice and Block are still the offered products, BPA has implemented new policies on how it sells power and what it will charge to meet customer's future load growth. Under BPA's new tiered rate methodology policy, BPA has allocated the power output and operational costs of the existing low-cost federal resources into a tier 1 pool. Rates for tier 1 are the lowest cost power available from BPA. The tier 1 power was allocated to public power customers like EWEB based on each customer's 2010 actual weather-adjusted load. The allocation determines the maximum planned amount of tier 1 power that a customer is eligible to purchase in each year of the contract.

  Each product provides attributes that bring different kinds of flexibility to the Board's power portfolio. The Slice provides a percentage of BPA's resources and contracts rather than a guaranteed amount of power and in exchange the Board pays its Slice percentage share of BPAs costs. Slice output, in combination with the Block and other EWEB resources, may be more or less than what is needed to serve EWEB's hourly retail loads. In the spring months, available must-run water in the Columbia system is typically high due to the runoff from snow melting and the increased power generation that must be produced may require BPA to rely on spilling water as a tool to balance generation with demand. However, in order to maintain safe water conditions to protect fish, spills are limited. The risk associated with the Slice product is managing the water variability and available Slice storage to economically meet hourly load obligations and to optimally dispatch the value of the surplus portion of the Slice product. The second BPA product purchased is the Block, which provides a fixed hourly amount for the month, and varies by month. The value of the Block product is the certainty of a fixed volume of power shaped to monthly load requirement and the monthly predictability of prices for the known quantity of power. Average monthly Block deliveries on an annual basis decreased from 118 aMW to 116 aMW.

The Slice product consists of a Slice share of BPA's Federal Base System generation. Under the new contract, the Board's initial Slice percentage share is 1.81%, compared to the historical 2.4% in the previous Requirements Slice contract. The Slice product includes a planned amount of power for service, as well as an advance sale of surplus power. However, the amount of actual power received under the Slice Product contract will vary with seasonal water year conditions, the performance of the CGS Nuclear plant and the performance and availability of all other Federal Base System resources. In years of heavy water flow and lack of overall storage in the Federal System, the Board may have rights to power that may be in excess of their needs, and in low water years the Board would need to augment its share of Slice output with its own generation, market purchases, or storage releases from EWEB's share of Slice storage.

The annual amount of power the Board is entitled to under these contracts based on the actual load during the period between October 1, 2009 and September 30, 2010, with some adjustments specified in BPA's tiered rate methodology, is approximately 250 aMW.

- **BPA Transmission Contract**
  In 2001, the Board signed the Network Integration Transmission Service contract with BPA to provide transmission for the Board's generation projects and BPA power contracts to serve EWEB's load. The current contract term extends through September 30, 2028. EWEB has firm roll-over rights with this contract.

EWEB-Owned Resources

- **Carmen-Smith and Trailbridge Hydroelectric Project**
  EWEB owns and operates the Carmen-Smith Hydroelectric Project (Carmen-Smith Project) within the McKenzie River basin. The Carmen-Smith Project includes the Carmen Power House with two generating units with a nameplate capacity of 52 MW each. The Carmen-Smith Project also includes the Trail Bridge re-regulating facility, with an additional generating unit with a nameplate capacity of 10 MW. The operating license for the Carmen-Smith Project expired on November 30, 2008. The Board submitted an application to relicense the facility to FERC on November 30, 2006. After relicensing at Trailbridge, the generator nameplate will remain 10 MW but the facility will be water limited by the new fish screen to approximately 8 MW capacity.

(Note 12 - Power supply resources, continued)

(Carmen-Smith and Trailbridge Hydroelectric Project, continued)

The Board has received, and will continue to receive, an annual operating license from FERC until it issues a new license. In October 2008, the Board entered into a settlement agreement with sixteen interested governmental, tribal and non-governmental parties, and submitted an Offer of Settlement to FERC to supplement the license application. The Settlement Agreement provides recommendations for measures that address the resources affected by the continued operation of the Project. The current FERC timeline projects a final license for the Carmen-Smith Project will be issued in the first quarter of 2012.

- **International Paper Industrial Energy Center Cogeneration Project**
  The Board and International Paper Company jointly operate a cogeneration facility at the International Paper Springfield plant. The unit, which has a nameplate capacity of 40 MW (average output is approximately 20 aMW), is owned by the Board, with International Paper providing operation and fuel. Under terms of the current agreement (which expires in 2019), the project costs and output for this unit are shared equally by the parties.

- **Leaburg-Walterville Hydroelectric Project**
  The Board owns and operates the Leaburg-Walterville Hydroelectric Project (L-W Project) on the McKenzie River in Lane County, Oregon. The L-W Project is comprised of two run-of-river facilities located at different points on the McKenzie River. The Leaburg facility includes a diversion dam on the McKenzie River, a canal and two generating units with a combined nameplate capacity of 15.5 MW. The Walterville facility includes a canal that diverts water from the McKenzie River and one generating unit with a nameplate capacity of 9 MW. In 2001, FERC granted the Board a new hydroelectric license for the L-W Project. The new license is for a term of 40 years.

- **Stone Creek Hydroelectric Project**
  The Stone Creek Project has one turbine with a peak capability of 12 MW. The facilities are on the Clackamas River approximately 45 miles southeast of Portland. The project is a run-of-the-river development located between two hydroelectric facilities that are owned and operated by PGE. The facility is operated and maintained under contract with PGE and is licensed through 2038.

- **Smith Creek Hydroelectric Project**
  The Smith Creek project is a run-of-the-river hydroelectric project on Smith Creek, a tributary of the Kootenai River in Northern Idaho. It is comprised of three units with a combined nameplate capacity of 38.3 MW. In April 2001, the Board took ownership of the project, which is licensed through 2037.

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

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

Contract Resources

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

- **Stateline Wind Project**
  In 2002, the Board agreed to purchase 25 MW from Phase 1 of the Stateline Wind Project located in Walla Walla County, Washington and Umatilla County, Oregon. The project consists of 399 wind turbines with total generating capacity of about 450 MW. The contract for this power expires on December 31, 2026.

- **Klondike III Wind Project**
  The Board has agreed to purchase 25 MW from Phase 3 of the Klondike Wind project located near the town of Wasco in Sherman County, Oregon. The project consists of 125 wind turbines with total generating capacity of about 224 MW. The Board's 25 MW share translates to about 11.2% of Klondike III total plant capability. The contract for this power expires on October 31, 2027.

(Note 12 – Power supply resources, continued)

- **Seneca Sustainable Energy**
  On February 25, 2010 EWEB entered a Renewable Power Purchase Agreement with Seneca Sustainable Energy LLC (SSE) to purchase the output of the biomass fueled electric cogeneration facility located in Eugene, Oregon. The contract term is for 15 years commencing on the commercial date of April 5, 2011. Nameplate capacity is 19.778 MW. Expected average output is approximately 14 aMW.

- **Solar PV Purchases**
  EWEB has a program to support the development of Solar PV generation in Eugene through the provision of net metering rates to those customers with small systems that wish to self-generate power and standard offers for 10 year power purchases at fixed rates for customers with larger system. Program participation is limited to systems under 1 MW. As of the close of 2010, EWEB had acquired contracts with total capacity slightly over 2 MW and 0.22 aMW of energy.

- **Metropolitan Wastewater Management Commission Biogas**
  The Metropolitan Wastewater Management Commission (MWMC) owns and operates the water pollution control facility located on River Avenue in Eugene that processes the wastewater created in the Eugene-Springfield metropolitan area. The byproduct of the decomposition that takes place during treatment is a biogas which is collected and piped into a reciprocating engine connected to a 0.80 MW generator that produces about 0.57 aMW per year. The renewable power purchase agreement with MWMC is for 10 years ending in 2019.

Note 13 – Retirement benefits

1. Pension Plan

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

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

Board (Retirement Board). The OPERS, a component unit of the State of Oregon, issues a comprehensive annual report that includes both pension plans, which may be obtained from PERS.

Funding Policy

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

In November 2006, the Board elected to make a lump-sum payment to OPERS of $7.2 million which lowered the employer contribution rate and OPERS allocated to a "side account" which is tracked separately for rate purposes. The Board's current employer contribution rate is 23.38% and 22.96% for OPERS and OPSRP, respectively. In December 2001, the Board elected to make a lump-sum payment of approximately $29.6 million, which had the effect of lowering the employer contribution rate. The lump-sum payment is recorded as an Other Asset and is being amortized over the funding period of 26 years. The amortization was $1.2 million for 2011 and 2010.

Annual Pension Cost

Because all participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are currently calculated in conformance with the parameters of GASB No. 27, *Accounting for Pensions by State and Local Government Employers*, there is no net pension obligation to report, and annual required contributions are equal to the annual pension cost. The Board's annual pension cost of $10.9 million for OPERS was equal to the Board's required and actual contributions.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/09	$ 9,337,000	100%	$ -
12/31/10	$ 8,703,000	100%	$ -
12/31/11	$ 10,985,000	100%	$ -

The required contribution was determined as part of the December 31, 2009, actuarial valuation using the projected unit credit method. The actuarial assumption included (a) 8% investment rate of return (b) projected salary increases of 3.75% per year, and (c) 2% per year for cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of the assets was determined by the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of combined valuation payroll over a closed period. For the OPERS UAL, this period is 20 years; for retiree healthcare, it is 10 years.

Funding Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 73% funded. The actuarial accrued liability for benefits was $301 million, and the actuarial value of assets was $220 million, resulting in an unfunded actuarial accrued liability (UAAL) of $81 million. The covered payroll

(Note 13 - Retirement benefits, continued)

(Pension plan, continued)

(annual payroll of active employees covered by the plan) was $40.2 million, and the ratio of the UAAL to the covered payroll was 202%. The 2010 actuarial valuation is for information only and employer rates are set based on the 2009 actuarial valuation as employer rates are updated every other year.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/08	$ 188,893,782	$ 281,553,582	$ 92,659,800	67%	$ 35,686,738	260%
12/31/09	$ 208,718,948	$ 290,442,448	$ 81,723,500	72%	$ 37,857,319	216%
12/31/10	$ 219,929,139	$ 301,199,612	$ 81,270,473	73%	$ 40,283,981	202%

2. The Supplemental Retirement Plan

Plan Description

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

Funding Policy

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

Annual Pension Cost

Employer contributions are calculated and made in conformity with the parameters of GASB No. 27. The Board's annual pension cost is based upon its latest actuarial report, dated January 1, 2010, with the next actuarial valuation to be completed during 2012 for the plan year ended December 31, 2011.

The Board's pension liability and the annual required contribution rate were determined as part of the January 1, 2010 actuarial valuation using the unit credit method. The unfunded actuarial accrued liability is amortized as a level percentage of projected annual payroll on an open basis over a 10-year period. The actuarial assumptions include a rate of return on investment of present and future assets of 6.25% per year, cost-of-living adjustments of 2.0% per year for post-retirement benefits and 1983 Group Annuity Mortality rate.

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

Annual required contribution (ARC)	$ 306,904
Interest on net pension obligation	56,245
Adjustment to ARC	(111,875)
Annual pension cost	251,274
Contributions made	444,000
Increase (decrease) in net pension obligation	(192,726)
Net pension obligation as of 1/1/09	899,923
Net pension obligation as of 12/31/09	$ 707,197

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/07	$ 272,544	120%	$ 992,976
12/31/08	$ 266,947	135%	$ 899,923
12/31/09	$ 251,274	177%	$ 707,197

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was 3% funded. The actuarial accrued liability for benefits was $2.2, and the actuarial value of assets was $65,000, resulting in an unfunded actuarial accrued liability (UAAL) of $2.1 million. The Board has designated funds of $1.7 million to fund the supplemental retirement plan. Since the pension plan is a closed plan and funds are designated to fund remaining UAAL, the Board continues to fund the plan on a pay-as-you-go basis of approximately $444,000 a year. The actuarial value of assets represents the market value of investments using recognized pricing services.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
1/1/08	$ 112,200	$ 2,500,363	$ 2,388,163	4.5%
1/1/09	$ 161,317	$ 2,393,643	$ 2,232,326	6.7%
1/1/10	$ 64,826	$ 2,181,270	$ 2,116,444	3.0%

(Note 13 - Retirement benefits, continued)

3. Post Employment Benefits Plan Other than Pensions

Plan Description

In addition to pension benefits, the Board provides post employment health care and life insurance benefits to all employees who retire under OPERS or OPSRP with at least 11 years of service. It is a single-employer defined benefit plan. Currently, 438 retirees or surviving spouses of retired employees and 526 active employees are covered under the plan. The life insurance benefit is a fixed amount of $5,000 per retiree. Health care coverage reimburses 80% of the amount of validated claims for certain medical, dental, vision and hospitalization costs. In 2007, the Board created the Eugene Water & Electric Board Retirement Benefits Trust for other post employment benefits (OPEB) other than pensions. The OPEB trust issues a publicly available set of audited financial statements that can be obtained by writing to the Board.

Funding Policy

The contribution requirements of plan participants are established by the Board and may be amended from time to time. Contributions by the plan participants are based on either a flat rate or a percentage of the premium cost and vary by participant according to years of service, year of retirement, age, and/or plan coverage. In December 2007, the Board deposited $8.2 million into the OPEB trust to begin funding the trust. It is the Board's intent to pay the actuarially determined OPEB cost annually to the trust. In 2010, the Board contributed $2.9 million into the plan.

Annual OPEB Cost

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

The ARC represents level funding, that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed twenty years. The Board's ARC of $2.4 million was less than the Board's contribution by $536,000. Therefore, as of year-end, the Board had a negative OPEB obligation (an asset).

Other actuarial assumptions include a rate of return on investments of present and future assets of 7% and 9% annual rate increase in the per capita cost of covered health care benefits for 2011. Health care benefit rate is assumed to decrease gradually to 6% in the year 2017 and remaining level thereafter. The salary scale assumption is 4.5% and the payroll growth rate is 4%.

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

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the preceding years were as follows:

Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
12/31/09	$ 2,935,311	100%	$ -
12/31/10	$ 2,942,862	100%	$ -
12/31/11	$ 2,414,202	122%	$ (535,798)

Funding Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 32% funded. The actuarial accrued liability for benefits was $35 million, and the actuarial value of assets was $11 million, resulting in an unfunded actuarial accrued liability (UAAL) of $24 million.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/09	$ 7,727,719	$ 35,224,929	$ 27,497,210	22%	$ 35,686,738	77%
1/1/10	$ 9,767,736	$ 38,459,621	$ 28,691,885	25%	$ 37,857,319	76%
1/1/11	$ 11,181,159	$ 34,979,118	$ 23,797,959	32%	$ 40,283,981	59%

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

Note 14 – Deferred compensation

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

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

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

Note 15 – Trojan Nuclear Plant

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

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

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

A summary of the balance sheets for EWEB's share of the Trojan Project as of September 30, 2011 and September 30, 2010 is as follows.

	Unaudited September 30, 2011	Unaudited September 30, 2010
Assets		
Current assets	$ 544,533	$ 1,522,451
Long-term receivable, BPA, net	42,810,319	43,131,472
Total assets	$ 43,354,852	$ 44,653,923
Liabilities		
Current liabilities	$ 1,285,787	$ 1,235,036
Accumulated provision for decommissioning costs	42,069,065	43,418,887
Total liabilitites	$ 43,354,852	$ 44,653,923

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

Note 16 – Commitments and contingencies

Electric Projects

Commitments for preconstruction costs to relicense the Carmen-Smith Project were $5.8 million for engineering and environmental services ($9 million at December 31, 2010).

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

Water Projects

Contractual commitments for construction at the Hayden Bridge filtration plant were $200,000 at December 31, 2011 for engineering design of the intake, and $1.3 million at December 31, 2010 for filter upgrades.

(Note 16 - Commitments and contingencies, continued)

Self-Insurance
The Board is exposed to various risks of loss because of the Board's self-insurance retention, up to the first $1,000,000 of exposure, per occurrence. Excess liability coverage protects the Board after the Board's self-insured limit is exhausted. However, public entities are also protected under State of Oregon tort limits ORS 30.260 – 30.300, which reduce the liability to any single claimant to $500,000. The limit on liability increases during successive years by $33,300 and $33,400 for causes of action arising during years ended June 30, 2011 and June 30, 2012, respectively. Consequently, except in extreme cases, the Board's exposure is mitigated by law. The limit is subject to change by State of Oregon legislation.

Claims liabilities recorded in the basic financial statements are based on the estimated ultimate loss as of the balance sheet date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported claims. Non-incremental claims adjustment costs such as salaries are not included in the claims estimates. At December 31, 2011, a total claims liability of approximately $73,000 is reported in the basic financial statements. All prior and current-year claim liabilities were fully reserved and have not been discounted.

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2009	General liability	$ 949,000	$ 150,262	$ (176,262)	$ 923,000
2010	General liability	$ 923,000	$ (107,119)	$ (447,816)	$ 368,065
2011	General liability	$ 368,065	$ 109,252	$ (404,017)	$ 73,300

Claims and Other Legal Proceedings
The Board is involved in various litigation. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Board's financial position beyond amounts already accrued as of December 31, 2011.

Supplemental Information

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ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2011

	2001A Series Current Interest 11-15-01		Revenue Bonds 2002 B Series 5-22-02		Revenue and Refunding 2002 C Series 5-22-02	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 950,000	$ 1,457,708	$ 1,495,000	$ 88,205	$ 600,000	$ 396,556
2013	1,125,000	1,397,668	-	-	620,000	370,756
2014	1,310,000	1,326,568	-	-	650,000	343,476
2015	1,520,000	1,243,776	-	-	680,000	314,226
2016	1,745,000	1,147,712	-	-	710,000	282,776
2017	1,990,000	1,037,428	-	-	740,000	249,051
2018	2,255,000	911,660	-	-	775,000	213,531
2019	2,545,000	769,144	-	-	815,000	175,750
2020	2,860,000	608,300	-	-	855,000	135,000
2021	3,200,000	427,548	-	-	900,000	92,250
2022	3,565,000	225,308	-	-	945,000	47,250
2023	867,106	3,097,894	-	-	-	-
2024	839,611	3,305,389	-	-	-	-
2025	814,720	3,520,280	-	-	-	-
2026	789,579	3,740,421	-	-	-	-
2027	756,540	3,913,460	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
	27,132,556	28,130,264	1,495,000	88,205	8,290,000	2,620,622
Less current	950,000	-	1,495,000	-	600,000	-
	$ 26,182,556	$ 28,130,264	$ -	$ 88,205	$ 7,690,000	$ 2,620,622

ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2011

	Revenue and Refunding 2003 Series 6-10-03		Revenue 2005 Series 05-10-05		Revenue 2006 Series 08-24-06	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 2,035,000	$ 1,459,388	$ 440,000	$ 366,250	$ 510,000	$ 440,801
2013	2,125,000	1,377,987	460,000	347,550	530,000	420,401
2014	2,200,000	1,292,988	480,000	326,850	550,000	399,201
2015	2,315,000	1,182,987	500,000	305,250	575,000	374,451
2016	2,435,000	1,067,238	525,000	282,750	600,000	348,576
2017	2,565,000	945,487	550,000	256,500	625,000	324,576
2018	2,695,000	817,238	570,000	234,500	655,000	299,576
2019	2,835,000	682,487	595,000	210,275	690,000	273,376
2020	2,985,000	540,738	615,000	184,988	720,000	245,776
2021	3,140,000	391,487	645,000	158,850	760,000	216,076
2022	3,300,000	234,488	675,000	129,825	795,000	184,726
2023	1,635,000	69,488	705,000	99,450	835,000	151,933
2024	-	-	735,000	67,725	875,000	116,863
2025	-	-	770,000	34,650	920,000	80,113
2026	-	-	-	-	965,000	41,013
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
2032	-	-	-	-	-	-
2033	-	-	-	-	-	-
2034	-	-	-	-	-	-
2035	-	-	-	-	-	-
2036	-	-	-	-	-	-
2037	-	-	-	-	-	-
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
	30,265,000	10,062,001	8,265,000	3,005,413	10,605,000	3,917,458
Less Current	2,035,000	-	440,000	-	510,000	-
	$ 28,230,000	$ 10,062,001	$ 7,825,000	$ 3,005,413	$ 10,095,000	$ 3,917,458

ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2011

	Revenue 2008A Series 07-17-08		Refunding 2008B Series 07-17-08		Revenue and Refunding 2011A Series 06-08-11	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 1,420,000	$ 2,411,975	$ 970,000	$ 1,437,550	$ -	$ 3,432,620
2013	1,470,000	2,355,175	1,115,000	1,398,750	1,575,000	3,152,406
2014	1,540,000	2,281,675	1,690,000	1,343,000	1,920,000	3,105,156
2015	1,490,000	2,204,675	1,950,000	1,258,500	2,015,000	3,009,156
2016	1,565,000	2,130,175	2,235,000	1,161,000	2,055,000	2,948,706
2017	1,645,000	2,051,925	2,550,000	1,049,250	2,155,000	2,845,956
2018	1,725,000	1,969,675	2,895,000	921,750	2,225,000	2,759,756
2019	1,810,000	1,883,425	3,260,000	777,000	2,335,000	2,648,506
2020	1,905,000	1,792,925	3,650,000	614,000	2,475,000	2,531,756
2021	2,000,000	1,697,675	4,085,000	431,500	1,575,000	2,432,756
2022	2,095,000	1,597,675	4,545,000	227,250	1,660,000	2,354,006
2023	2,200,000	1,492,925	-	-	2,480,000	2,271,006
2024	2,300,000	1,393,925	-	-	2,610,000	2,147,006
2025	2,405,000	1,290,425	-	-	2,645,000	2,016,506
2026	2,520,000	1,176,188	-	-	3,030,000	1,884,256
2027	2,640,000	1,056,486	-	-	3,180,000	1,732,756
2028	2,765,000	931,088	-	-	3,440,000	1,573,756
2029	2,895,000	799,750	-	-	3,510,000	1,401,756
2030	3,040,000	655,000	-	-	3,685,000	1,226,256
2031	3,190,000	503,000	-	-	3,865,000	1,042,006
2032	3,350,000	343,500	-	-	3,400,000	863,250
2033	3,520,000	176,000	-	-	1,505,000	718,750
2034	-	-	-	-	1,580,000	643,500
2035	-	-	-	-	1,660,000	564,500
2036	-	-	-	-	1,745,000	481,500
2037	-	-	-	-	1,830,000	394,250
2038	-	-	-	-	1,920,000	302,750
2039	-	-	-	-	2,015,000	206,750
2040	-	-	-	-	2,120,000	106,000
	49,490,000	32,195,262	28,945,000	10,619,550	66,210,000	50,797,343
Less Current	1,420,000	-	970,000	-	-	-
	$ 48,070,000	$ 32,195,262	$ 27,975,000	$ 10,619,550	$ 66,210,000	$ 50,797,343

ELECTRIC SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2011

	Refunding 2011B Series 06-08-11		Total Electric System Payments		
	Principal	Interest	Principal	Interest	Totals
2012	$ -	$ 319,322	$ 8,420,000	$ 11,810,375	$ 20,230,375
2013	560,000	293,255	9,580,000	11,113,948	20,693,948
2014	745,000	287,655	11,085,000	10,706,569	21,791,570
2015	755,000	276,480	11,800,000	10,169,501	21,969,502
2016	775,000	259,870	12,645,000	9,628,803	22,273,804
2017	790,000	239,720	13,610,000	8,999,893	22,609,894
2018	815,000	215,625	14,610,000	8,343,311	22,953,311
2019	840,000	188,323	15,725,000	7,608,286	23,333,286
2020	875,000	155,983	16,940,000	6,809,466	23,749,466
2021	915,000	120,983	17,220,000	5,969,125	23,189,125
2022	945,000	83,010	18,525,000	5,083,538	23,608,538
2023	985,000	42,848	9,707,106	7,225,544	16,932,650
2024	-	-	7,359,611	7,030,908	14,390,519
2025	-	-	7,554,720	6,941,974	14,496,694
2026	-	-	7,304,579	6,841,878	14,146,457
2027	-	-	6,576,540	6,702,702	13,279,242
2028	-	-	6,205,000	2,504,844	8,709,844
2029	-	-	6,405,000	2,201,506	8,606,506
2030	-	-	6,725,000	1,881,256	8,606,256
2031	-	-	7,055,000	1,545,006	8,600,006
2032	-	-	6,750,000	1,206,750	7,956,750
2033	-	-	5,025,000	894,750	5,919,750
2034	-	-	1,580,000	643,500	2,223,500
2035	-	-	1,660,000	564,500	2,224,500
2036	-	-	1,745,000	481,500	2,226,500
2037	-	-	1,830,000	394,250	2,224,250
2038	-	-	1,920,000	302,750	2,222,750
2039	-	-	2,015,000	206,750	2,221,750
2040	-	-	2,120,000	106,000	2,226,000
	9,000,000	2,483,074	239,697,556	143,919,183	383,616,743
Less Current	-	-	8,420,000		8,420,000
	$ 9,000,000	$ 2,483,072	$ 231,277,556	$ 143,919,186	$ 375,196,743

WATER SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2011

	Revenue Bonds 2002 Series 07/16/02		Revenue Bonds & Refunding 2005 Series 07/26/05		Revenue Bonds 2008 Series 07/17/08	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	$ 545,000	$ 326,264	$ 430,000	$ 517,930	$ 295,000	$ 698,965
2013	570,000	305,826	445,000	502,880	310,000	685,690
2014	595,000	283,596	460,000	487,305	320,000	671,740
2015	620,000	259,796	475,000	470,055	335,000	657,340
2016	645,000	234,221	500,000	451,055	350,000	642,600
2017	675,000	206,809	520,000	426,055	365,000	627,550
2018	710,000	178,121	545,000	400,055	380,000	612,950
2019	740,000	147,059	570,000	372,805	395,000	597,750
2020	780,000	113,759	600,000	344,305	415,000	581,555
2021	815,000	77,879	630,000	320,305	430,000	564,125
2022	855,000	40,185	655,000	295,105	450,000	545,850
2023	-	-	675,000	268,905	465,000	526,725
2024	-	-	705,000	241,230	490,000	505,800
2025	-	-	735,000	212,149	510,000	483,750
2026	-	-	765,000	181,830	535,000	460,800
2027	-	-	800,000	148,552	560,000	436,725
2028	-	-	835,000	113,753	585,000	411,525
2029	-	-	870,000	77,430	610,000	385,200
2030	-	-	910,000	39,585	635,000	357,750
2031	-	-	-	-	665,000	329,175
2032	-	-	-	-	695,000	299,250
2033	-	-	-	-	730,000	262,763
2034	-	-	-	-	770,000	224,438
2035	-	-	-	-	810,000	184,013
2036	-	-	-	-	855,000	141,488
2037	-	-	-	-	895,000	96,600
2038	-	-	-	-	945,000	49,611
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-
	7,550,000	2,173,515	12,125,000	5,871,289	14,800,000	12,041,728
Less current	545,000	-	430,000	-	295,000	-
	$ 7,005,000	$ 2,173,515	$ 11,695,000	$ 5,871,289	$ 14,505,000	$ 12,041,728

WATER SYSTEM
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2011

	Revenue Bonds 2011 Series 06/08/11		Total Water System Payments		
	Principal	Interest	Principal	Interest	Totals
2012	$ -	$ 772,104	$ 1,270,000	$ 2,315,263	$ 3,585,263
2013	-	709,075	1,325,000	2,203,471	3,528,471
2014	405,000	709,075	1,780,000	2,151,716	3,931,716
2015	410,000	700,975	1,840,000	2,088,166	3,928,166
2016	425,000	688,675	1,920,000	2,016,551	3,936,551
2017	435,000	678,050	1,995,000	1,938,464	3,933,464
2018	445,000	669,350	2,080,000	1,860,476	3,940,476
2019	455,000	659,338	2,160,000	1,776,952	3,936,952
2020	470,000	647,963	2,265,000	1,687,582	3,952,582
2021	480,000	633,863	2,355,000	1,596,172	3,951,172
2022	495,000	619,463	2,455,000	1,500,603	3,955,603
2023	510,000	603,375	1,650,000	1,399,005	3,049,005
2024	530,000	585,525	1,725,000	1,332,555	3,057,555
2025	550,000	566,975	1,795,000	1,262,874	3,057,874
2026	570,000	546,350	1,870,000	1,188,980	3,058,980
2027	590,000	524,975	1,950,000	1,110,252	3,060,252
2028	610,000	501,375	2,030,000	1,026,653	3,056,653
2029	635,000	476,975	2,115,000	939,605	3,054,605
2030	660,000	451,575	2,205,000	848,910	3,053,910
2031	690,000	423,525	1,355,000	752,700	2,107,700
2032	720,000	394,200	1,415,000	693,450	2,108,450
2033	755,000	358,875	1,485,000	621,638	2,106,638
2034	795,000	321,975	1,565,000	546,413	2,111,413
2035	830,000	283,250	1,640,000	467,263	2,107,263
2036	875,000	241,750	1,730,000	383,238	2,113,238
2037	920,000	198,000	1,815,000	294,600	2,109,600
2038	965,000	152,000	1,910,000	201,611	2,111,611
2039	1,010,000	103,750	1,010,000	103,750	1,113,750
2040	1,065,000	53,250	1,065,000	53,250	1,118,250
	17,300,000	14,275,631	51,775,000	34,362,163	86,137,163
	-	-	1,270,000	-	1,270,000
	$ 17,300,000	$ 14,275,631	$ 50,505,000	$ 34,362,163	$ 84,867,163

ELECTRIC SYSTEM
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2011

	Bond Funds					
	Interest Accounts	Principal Accounts	**Debt Service Reserve**	**Construction Funds**	**Customer Deposit Reserve**	**Total All Funds**
Ending balance - December 31, 2010	$ 4,547,584	$ 5,146,077	$ 2,807,937	$ 1,978,392	$ 7,053,945	$ 21,533,935
Bond Proceeds	-	-	4,500,000	33,383,316	-	37,883,316
Escrow Holdings	-	-	-	-	-	-
Deposits from general fund	9,744,961	10,261,589	-	72,086	436,393	20,515,029
Interest earnings	6,624	1,634	13,301	66,079	24,280	111,918
Other transfers	-	-	-	-	-	-
Receipts	9,751,585	10,263,223	4,513,301	33,521,481	460,673	58,510,263
Principal payments	-	9,703,913	-	-	-	9,703,913
Interest payments	11,385,000	-	-	-	-	11,385,000
Defeasance	-	-	-	-	-	-
Transfers to general fund	-	-	-	12,825,721	32,280	12,858,001
Other transfers	-	-	98,973	47,395	-	146,368
Disbursements	11,385,000	9,703,913	98,973	12,873,116	32,280	34,093,282
U.S. agency securities, at market	1,955,772	5,004,307	7,222,047	18,758,282	2,172,234	35,112,642
Cash in bank	958,397	701,080	218	-	956,936	2,616,631
State of Oregon Local Government	-	-	-	-	-	-
Investment Pool	-	-	-	3,868,475	4,353,168	8,221,643
Ending balance - December 31, 2011	$ 2,914,169	$ 5,705,387	$ 7,222,265	$ 22,626,757	$ 7,482,338	$ 45,950,916

WATER SYSTEM
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2011

	Debt Service Accounts	SDC Reserves	Construction Funds	Total All Funds
Ending balance - December 31, 2010	$ 2,687,713	$ 2,261,390	$ -	$ 4,949,103
Proceeds from bond issue	772,104	-	16,748,350	17,520,454
Deposits from general fund	3,253,959	757,351	-	4,011,310
Interest earnings	5,437	10,045	37,517	52,999
Receipts	4,031,500	767,396	16,785,867	21,584,763
Principal payments	1,225,000	-	-	1,225,000
Interest payments	1,593,374	-	-	1,593,374
Transfers to general fund	-	1,336,782	1,011,769	2,348,551
Other ransfers	17,177	-	36,999	54,176
Disbursements	2,835,551	1,336,782	1,048,768	5,221,101
U.S. agency securities, at market	3,590,133	-	12,143,120	15,733,253
Cash in bank	293,529	-	-	293,529
Investment Pool	-	1,692,004	3,593,979	5,285,983
Ending balance - December 31, 2011	$ 3,883,662	$ 1,692,004	$ 15,737,099	$ 21,312,765

Audit Comments

(Disclosures and comments required by state regulations)

Oregon Administrative Rules 162-10-050 through 162-10-320, *the Minimum Standards for Audits of Oregon Municipal Corporations,* prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth following.

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

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the accompanying combined financial statements of the Eugene Water & Electric Board (EWEB) as of and for the year ended December 31, 2011 and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

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

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

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

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Internal Control Over Financial Reporting

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

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

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

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

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

Julie Desimone

For Moss Adams LLP
Portland, Oregon
February 13, 2012

Rely on us.

EWEB

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

www.eweb.org