



Portland General Electric Company
Trojan ISFSI
71760 Columbia River Hwy
Rainier OR 97048

April 30, 2007
VPN-007-2007

Trojan ISFSI
Docket 72-17
License SNM-2509

ATTN: Document Control Desk
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Annual Financial Report for Year 2006

Portland General Electric Company (PGE), with Eugene Water and Electric Board (EWEB) and PacifiCorp, are the licensees for SNM-2509. PGE and PacifiCorp submit Form 10-Q reports to the Securities and Exchange Commission (SEC). EWEB is a government entity that does not submit a Form 10-Q with the SEC, or a Form 1 with the Federal Energy Regulatory Commission.

In accordance with 10 CFR 72.80(b), enclosed is the Year 2006 Annual Financial Report for EWEB. PGE and PacifiCorp are no longer required to submit annual financial reports to NRC under 10 CFR 72.80(b).

If you have any questions regarding this submittal, please contact Mr. Jay Fischer of my staff at (503) 556-7030.

Sincerely,

Stephen M. Quennoz
Vice President, Power Supply/Generation

Enclosures

- c: T. M. Stoops, ODOE
Director, DNMS, NRC Region IV
C. M. Regan, NRC, NMSS, SFPO (w/o enclosures)
K. D. Beeson, EWEB (w/o enclosures)
E. M. Burton, PacifiCorp (w/o enclosures)
R. N. Sherman, BPA (w/o enclosures)

NMSSO/
M004

EUGENE WATER & ELECTRIC BOARD
INDEPENDENT AUDITOR'S REPORTS AND
FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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

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

OFFICERS
500 East Fourth Avenue ▪ Eugene, Oregon 97401

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the accompanying balance sheets of the Electric System and Water System of Eugene Water & Electric Board (Board) as of December 31, 2006 and 2005 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Moss Adams LLP
Vancouver, Washington
February 1, 2007


A Partner of Moss Adams LLP
Certified Public Accountants

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

The Eugene Water & Electric Board (Board or EWEB) is an administrative unit of the City of Eugene, Oregon (City) and is responsible for the operation of the water and electric utilities of the City. The responsibilities delegated to the Board pursuant to the City Charter are conducted under the direction of a publicly elected board of five commissioners. The Board operates vertically integrated electric and water utilities that serve 85,500 electric customers and 49,900 water customers.

Financial Policies and Controls

The Board's financial management system consists of financial policies, financial management strategies, and the internal control structure, including the annual budgets and external audit of its financial statements. The Board has the exclusive right to determine rates and charges for services provided. The Board has established standards for financial performance above the average of publicly owned electric and water utilities. Planning is guided by ten-year forecasts of balance sheet, operating, and capital items. These tools are used to identify the impacts of anticipated initiatives and to devise strategies to meet the Board's financial objectives.

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

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

Power Supply Risk Management Policies

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

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

Electric System

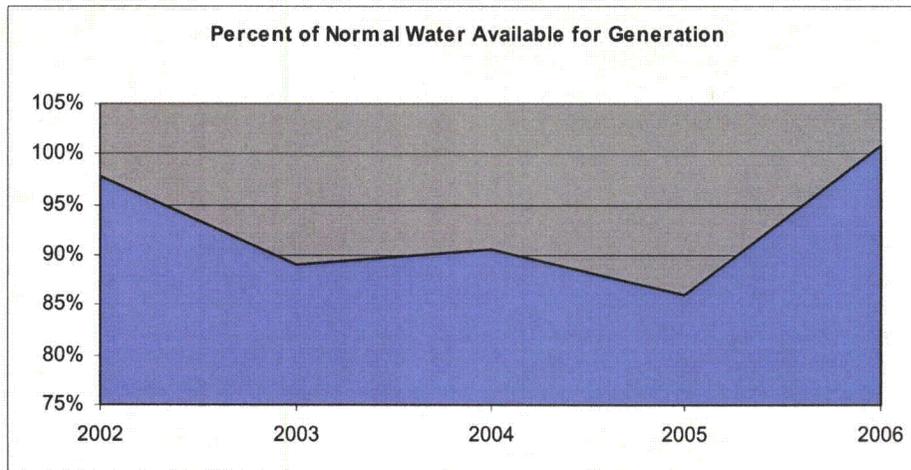
The Electric System serves a 238-square mile area, including the City and adjacent suburban areas. Power supply requirements are met primarily from hydroelectric sources, including self-generation and purchases from Bonneville Power Administration (BPA). Heating load and general economic conditions are the primary influences on retail sales. However, overall financial condition is influenced

EUGENE WATER & ELECTRIC BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

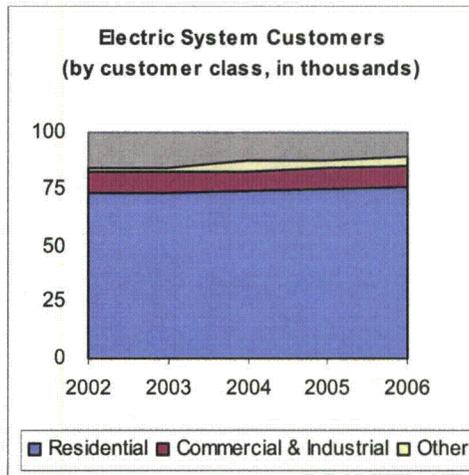
to a much greater degree by the availability of water for generation that is in excess of historically critical conditions both locally and regionally.

The Electric System in 2006 purchased 53% of its power used to serve load from BPA, the majority of which is provided under a "Slice of System" contract. The remainder is obtained under a standard output (Block) contract. Under the Slice agreement EWEB has rights to 2.4% of the output of the federal BPA system. At critical water conditions (i.e. lowest on historical record) this portion of output, together with EWEB's self-generation is sufficient to serve retail load. The price of Slice power is set assuming critical water conditions. To the extent water conditions are above critical, the resulting secondary output is obtained at no additional charge. Sales prices are supported by output sales into forward markets and by financial instruments that have the effect of setting minimum price for sales of secondary power.

Beginning in 2005, EWEB changed its budgeting and forecasting process to assume that available water for generation is 85% of the normal precipitation. To the extent the amount of water for generation is greater than 85%, additional funds are reserved by the Board for use in future years. Water available for generation in 2006 was 101% of normal (86% in 2005), thus contributing to substantial deposits to cash reserve accounts.



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



Financial Summary and Analysis

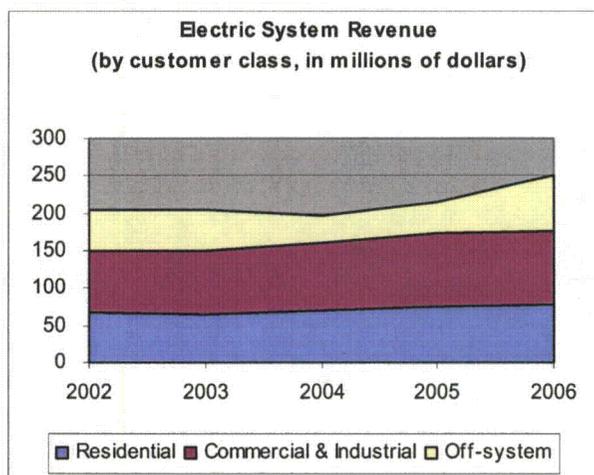
During 2006 the Electric System's operating revenue increased by \$12 million (or 5.5%). Retail (residential, commercial and industrial) revenue increased by \$4 million (2.3%) in comparison to 2005. Kilowatt Hour (Kwh) Sales to retail customers were approximately 1.6% greater than 2005. However, the increase in retail revenue was driven primarily by a 5.8% average retail rate increase effective May 2006 offset by a rate decrease in November of 2006. The retail rate increase funded scheduled increases in Electric System debt service and provided funding for a higher level of renewable energy resources. Favorable performance of hydroelectric generation in the region resulted in higher off-system wholesale sales of power surplus to retail needs. In December 2006, the Board of Commissioners deferred \$20 million of revenue in accordance with Financial Accounting Standards Board Statement No. 71 (FASB 71) for the Carmen-Smith reserve.

Operating expenses increased by \$27 million (or 15.3%) in 2006 due to two principle causes. Energy conservation measures are being fully recovered in current retail rates and are expected to continue to do so in the future. Consequently the cost of all energy conservation measures was expensed in 2006. Also, the Board made a lump sum payment of \$5.9 million to the Oregon Public Employees' Retirement System (OPERS) to fund its pension liabilities prior to being required to do so by OPERS rate-making policies. This payment was recorded as an operating expense in 2006.

Unrestricted designated cash reserves held by the Board at its discretion increased \$27 million (94%) during 2006. The Board increased its targets for designated cash reserves to \$67 million during 2006 by formalizing its desire to provide an equity contribution to future construction improvements related to the Carmen-Smith Hydroelectric Project Relicensing and directing \$20 million toward this purpose. Accordingly, \$20 million of operating revenue otherwise attributable to 2006 has been deferred under FASB 71.

EUGENE WATER & ELECTRIC BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

The improvement in financial performance and reserve balances reflects the Board's ongoing commitment to regaining the financial flexibility that was compromised during the 2001 Energy Crisis. This commitment was demonstrated during 2004 with the adoption of more conservative budgeting assumptions and two separate retail rate increases in that year to stabilize Electric System finances and fully reflect wholesale power costs.



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

Selected Financial Data

(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 230	\$ 218	\$ 211
Operating expenses	(201)	(174)	(171)
Net operating income	29	44	40
Other revenues	8	5	4
Other expenses	(25)	(30)	(25)
Income before contributed capital	12	19	19
Contributed capital	4	3	3
Change in net assets	<u>\$ 16</u>	<u>\$ 22</u>	<u>\$ 22</u>
Total assets	<u>\$ 462</u>	<u>\$ 433</u>	<u>\$ 396</u>
Total liabilities	<u>\$ 281</u>	<u>\$ 269</u>	<u>\$ 254</u>
Net assets			
Invested in capital assets, net of related debt	102	96	73
Restricted	5	4	3
Unrestricted	74	64	66
Total net assets	<u>181</u>	<u>164</u>	<u>142</u>
Total liabilities and net assets	<u>\$ 462</u>	<u>\$ 433</u>	<u>\$ 396</u>

Capital Assets and Long-Term Debt Activity

Total utility plant in service as of December 31, 2006, 2005 and 2004 consisted of the following:

(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Production and land	\$ 188	\$ 174	\$ 169
Transmission and distribution	236	225	218
General plant	75	73	67
Total utility plant in service	<u>\$ 499</u>	<u>\$ 472</u>	<u>\$ 454</u>

As of year-end the Electric System had \$499 million of utility plant in service. Major capital additions during the year included the completion of the Leaburg/Waltermville license requirements (\$11.6 million) and upgrades of the distribution system feeder circuits and metering plant (\$11 million).

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

The Electric System Capital Improvement Plan (CIP) (2007-2011) calls for the replacement of a major transmission/distribution substation and improvements to related feeder systems. Also included in the CIP are substantial outlays for relicensing improvements to the Carmen-Smith Hydroelectric Generation Project. Capital construction is provided for through a combination of construction fees, cash flow from revenues and long-term revenue bonds.

Total liabilities as of December 31, 2006, 2005 and 2004 consisted of the following:

<i>(in millions of dollars)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current liabilities	\$ 48	\$ 50	\$ 42
Noncurrent liabilities	<u>233</u>	<u>219</u>	<u>212</u>
Total liabilities	<u>\$ 281</u>	<u>\$ 269</u>	<u>\$ 254</u>

EWEB issues revenue bonds to provide for the construction of capital facilities. At year end, the Electric System had \$207 million of revenue bonds outstanding versus \$214 million the previous year. Additional bonds were issued in 2006 in the amount of \$12.85 million to complete the Carmen-Smith Hydroelectric Plant relicensing application and to provide a detailed design of a new operations facility. Long-term debt decreased during the year as a result of a recapitalization of the Western Generation Agency (WGA) resulting in the return to EWEB of the majority of its investment in WGA. The proceeds of this transaction were used to call in advance of maturity the Series 1996 Electric System Revenue Bonds.

Economic Factors, Rates, and Outlook

Economic conditions are expected to remain stable both locally and regionally. Apart from the pass-through of BPA wholesale price changes, no Electric System retail rate adjustments are anticipated during 2007. While design work and planning for the new Roosevelt Operations Facility will continue throughout the year, capital construction and related financing is not expected until 2008.

The license application for the Carmen-Smith project was submitted to FERC in November 2006 as planned. Consultations with fishery agencies and environmental interests are expected to continue throughout 2007. Preliminary indications are final license approval will not be obtained until at least 2009.

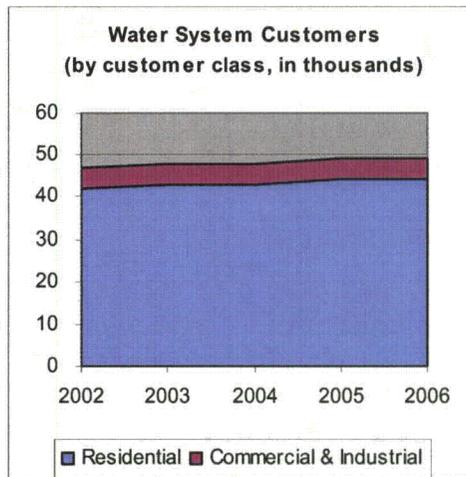
During 2007 the Board is scheduled to undertake a review of the competitiveness of its electric rates in comparison to other utilities locally and within the region. Full funding of the current reserve targets may occur by the end of 2007 at which time the Board may revise its targets for rates and reserves.

Water System

The Water System provides water to all areas within the City, two water districts and one private water utility outside the City. During 2006 the Water System sold approximately 10 billion gallons of water,

EUGENE WATER & ELECTRIC BOARD MANAGEMENT'S DISCUSSION AND ANALYSIS

9.5% of which was to the water districts. Water is supplied from the McKenzie River and is treated at the Hayden Bridge Filtration Plant, the largest full-treatment plant in Oregon. Water is pumped from the Hayden Bridge Filtration Plant into the distribution system through two large transmission mains. The water distribution system consists of 27 enclosed reservoirs with a combined storage capacity of 93.5 million gallons, 32 pump stations and over 790 miles of distribution mains.

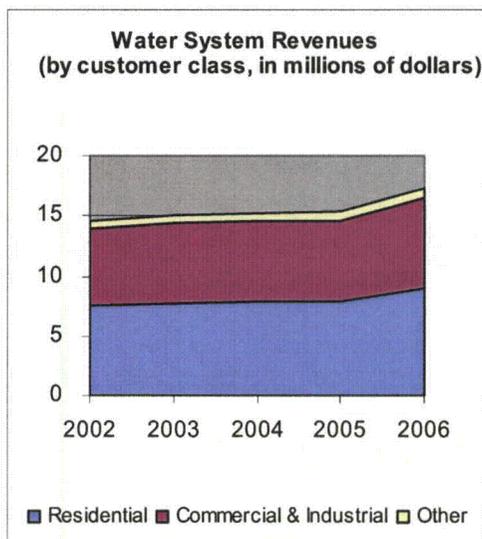


Financial Summary and Analysis

Water System operating revenues increased by \$2 million (12.9%) while operating expenses increased by \$2.9 million (20.5%) resulting in a \$965,000 decrease in net operating income. The principle cause of the revenue increase was a 9.3% retail water rate increase effective in May. Operating costs increased due to general wage and benefit increases, a \$1.3 million lump sum PERS payment to reduce unfunded pension liabilities, and additional depreciation expense of \$950 thousand attributable to higher than expected plant in service additions. Increase in other revenue was attributable to higher returns on invested funds. Decrease in other non-operating expenses was primarily attributable to lower interest costs resulting in net other revenues and expenses of \$234,000 compared with a loss of \$529,000 for non-operating items in 2005.

Water sales at the margin are attributable to summer irrigation loads. Water sales have fallen short of expectations for the period 2004-06 due to a number of factors including cooler and wetter summers and the effects of an extensive water conservation program directed primarily at peak irrigation loads.

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



Selected Financial Data

(in millions of dollars)

	2006	2005	2004
Operating revenues	\$ 17.3	\$ 15.3	\$ 15.2
Operating expenses	(17.3)	(14.4)	(13.7)
Net operating income	-	0.9	1.5
Other revenues	1.3	1.0	0.6
Other expenses	(1.1)	(1.5)	(1.8)
Income before contributed capital	0.2	0.4	0.3
Contributed capital	2.7	3.9	2.9
Change in net assets	\$ 2.9	\$ 4.3	\$ 3.2
Total assets	\$ 83.0	\$ 81.4	\$ 86.4
Total liabilities	\$ 30.1	\$ 31.3	\$ 40.6
Net assets			
Invested in capital assets, net of related debt	34.4	31.9	28.1
Restricted	9.9	9.5	8.7
Unrestricted	8.6	8.7	9.0
Total net assets	52.9	50.1	45.8
Total liabilities and net assets	\$ 83.0	\$ 81.4	\$ 86.4

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

Capital Assets and Long-Term Debt Activity

Total Water System utility plant in service as of December 31, 2006, 2005 and 2004 consisted of the following:

<i>(in millions of dollars)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Production	\$ 34	\$ 33	\$ 30
Transmission and distribution	76	71	66
General plant	<u>5</u>	<u>5</u>	<u>5</u>
Total utility plant in service	<u>\$ 115</u>	<u>\$ 109</u>	<u>\$ 101</u>

As of year-end the Water System had \$115 million invested in a variety of capital assets. Utility plant in service, net of accumulated depreciation, was \$48.4 million representing a 6.6% increase from 2005. Capital construction is provided through a combination of construction fees, cash flow from net revenues, and long-term revenue bonds.

Total liabilities as of December 31, 2006, 2005 and 2004 consisted of the following:

<i>(in millions of dollars)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current liabilities	\$ 3	\$ 3	\$ 3
Noncurrent liabilities	<u>27</u>	<u>28</u>	<u>38</u>
Total liabilities	<u>\$ 30</u>	<u>\$ 31</u>	<u>\$ 41</u>

At year-end the Water System had \$23 million of revenue bonds outstanding versus \$23.8 million at prior year-end. No bonds were issued during 2006.

System Rates

The 2006 update to the Water System Capital Improvement Plan (CIP) identified the need for a long-term program of renewals and replacements of distribution mains. Prior versions of the CIP had projected the need for additional long-term source of supply and upgrades to the purification system. These capital improvement needs are expected to create upward pressure on retail rates for the next five years.

Over the last several years the demand for the water supply from customers continues to be lower than anticipated, resulting in lower than projected revenues. Therefore, during 2007, water rates are to be adjusted upward by approximately 9.5%. In the context of its ongoing financial planning, the Board is reviewing various options for a program of annual rate increases to cover anticipated future costs.

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

Summary

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

EUGENE WATER & ELECTRIC BOARD
BALANCE SHEETS - ASSETS
DECEMBER 31, 2006

	Electric System	Water System	Total Systems
ASSETS			
Utility plant in service	\$ 498,776,718	\$ 115,018,303	\$ 613,795,021
Less accumulated depreciation	263,015,719	66,607,256	329,622,975
Net utility plant in service	235,760,999	48,411,047	284,172,046
Property held for future use	2,638,769	989,578	3,628,347
Construction work in progress	23,064,685	7,995,591	31,060,276
Net utility plant	261,464,453	57,396,216	318,860,669
Customer deposit reserve	3,302,920	-	3,302,920
Construction funds	11,197,003	-	11,197,003
System development charge reserves	-	9,521,195	9,521,195
Investments for debt service	7,749,674	815,415	8,565,089
Restricted cash and investments	22,249,597	10,336,610	32,586,207
Cash and cash equivalents	2,447,073	2,622,038	5,069,111
Short-term investments	-	-	-
Designated cash and investments			
Purchased power reserve	15,302,125	-	15,302,125
Capital improvement reserve	12,372,578	3,138,319	15,510,897
Carmen-Smith reserve	19,960,061	-	19,960,061
Operating reserve	1,550,756	147,392	1,698,148
Pension and medical reserve	6,474,858	701,508	7,176,366
Receivables, less allowances	40,244,283	1,449,824	41,694,107
Materials and supplies	2,576,781	494,450	3,071,231
Prepays	1,626,778	463,532	2,090,310
Option premiums short-term	4,003,234	-	4,003,234
Total current assets	106,558,527	9,017,063	115,575,590
Prepaid retirement obligation	18,570,462	4,076,442	22,646,904
Investment in WGA	-	-	-
Long-term receivable, conservation and other	6,277,267	-	6,277,267
Note receivable, water	4,283,719	-	-
Deferred charges			
Preliminary investigations	14,784,158	-	14,784,158
Conservation assets	10,139,932	-	10,139,932
Derivatives at fair value	8,705,416	-	8,705,416
Option premiums long-term	3,323,949	-	3,323,949
Other deferred charges	5,612,848	2,201,003	7,813,851
Total other assets	71,697,751	6,277,445	73,691,477
Total assets	\$ 461,970,328	\$ 83,027,334	\$ 540,713,943

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

**EUGENE WATER & ELECTRIC BOARD
BALANCE SHEETS - ASSETS
DECEMBER 31, 2005**

ASSETS	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
Utility plant in service	\$ 472,251,800	\$ 109,103,294	\$ 581,355,094
Less accumulated depreciation	<u>251,655,391</u>	<u>63,696,733</u>	<u>315,352,124</u>
Net utility plant in service	220,596,409	45,406,561	266,002,970
Property held for future use	2,390,372	979,788	3,370,160
Construction work in progress	<u>26,478,248</u>	<u>9,306,595</u>	<u>35,784,843</u>
Net utility plant	<u>249,465,029</u>	<u>55,692,944</u>	<u>305,157,973</u>
Customer deposit reserve	3,112,968	-	3,112,968
Construction funds	2,270,793	-	2,270,793
System development charge reserves	-	9,051,266	9,051,266
Investments for debt service	<u>7,749,842</u>	<u>825,293</u>	<u>8,575,135</u>
Restricted cash and investments	<u>13,133,603</u>	<u>9,876,559</u>	<u>23,010,162</u>
Cash and cash equivalents	9,728,156	1,397,834	11,125,990
Short-term investments	8,605,724	-	8,605,724
Designated cash and investments			
Purchased power reserve	11,832,760	-	11,832,760
Capital improvement reserve	7,673,338	2,992,060	10,665,398
Carmen-Smith reserve	-	-	-
Operating reserve	1,013,311	144,403	1,157,714
Pension and medical reserve	8,217,777	1,842,066	10,059,843
Receivables, less allowances	36,258,549	1,201,879	37,460,428
Materials and supplies	2,432,753	418,166	2,850,919
Prepays	2,112,035	575,724	2,687,759
Option premiums short-term	<u>3,561,981</u>	<u>-</u>	<u>3,561,981</u>
Total current assets	<u>91,436,384</u>	<u>8,572,132</u>	<u>100,008,516</u>
Prepaid retirement obligation	19,038,755	4,759,686	23,798,441
Investment in WGA	8,726,974	-	8,726,974
Long-term receivable, conservation and other	5,266,441	-	5,266,441
Note receivable, water	4,989,995	-	-
Deferred charges			
Preliminary investigations	11,326,659	-	11,326,659
Conservation assets	13,334,523	-	13,334,523
Derivatives at fair value	6,960,279	-	6,960,279
Option premiums long-term	3,639,043	-	3,639,043
Other deferred charges	<u>5,616,790</u>	<u>2,473,028</u>	<u>8,089,818</u>
Total other assets	<u>78,899,459</u>	<u>7,232,714</u>	<u>81,142,178</u>
Total assets	<u>\$ 432,934,475</u>	<u>\$ 81,374,349</u>	<u>\$ 509,318,829</u>

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

See accompanying notes.

EUGENE WATER & ELECTRIC BOARD
BALANCE SHEETS - LIABILITIES AND NET ASSETS
DECEMBER 31, 2006

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
LIABILITIES			
Payables	\$ 32,167,456	\$ 933,775	\$ 33,101,231
Accrued payroll and benefits	3,167,648	549,347	3,716,995
Accrued interest on long-term debt	4,214,785	433,511	4,648,296
Long-term debt due within one year	<u>8,495,000</u>	<u>910,000</u>	<u>9,405,000</u>
Current liabilities	<u>48,044,889</u>	<u>2,826,633</u>	<u>50,871,522</u>
Long-term debt, bonds payable	198,363,299	22,063,383	220,426,682
Note payable, Electric	-	4,283,719	-
Derivatives at fair value	8,705,416	-	8,705,416
Other liabilities	4,315,885	927,193	5,243,078
Deferred revenue	20,000,000	-	20,000,000
Deferred credit-WGA	<u>1,931,292</u>	<u>-</u>	<u>1,931,292</u>
Total liabilities	<u>281,360,781</u>	<u>30,100,928</u>	<u>307,177,990</u>
NET ASSETS			
Invested in capital assets, net of related debt	101,804,870	34,422,833	136,227,703
Restricted	4,888,266	9,903,098	14,791,364
Unrestricted	<u>73,916,411</u>	<u>8,600,475</u>	<u>82,516,886</u>
Total net assets	<u>180,609,547</u>	<u>52,926,406</u>	<u>233,535,953</u>
Total liabilities and net assets	<u>\$ 461,970,328</u>	<u>\$ 83,027,334</u>	<u>\$ 540,713,943</u>

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

**EUGENE WATER & ELECTRIC BOARD
BALANCE SHEETS - LIABILITIES AND NET ASSETS
DECEMBER 31, 2005**

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
LIABILITIES			
Payables	\$ 34,479,547	\$ 473,211	\$ 34,952,758
Accrued payroll and benefits	3,197,831	730,478	3,928,309
Accrued interest on long-term debt	4,444,258	441,425	4,885,683
Long-term debt due within one year	7,890,000	905,000	8,795,000
	<u>50,011,636</u>	<u>2,550,114</u>	<u>52,561,750</u>
Current liabilities			
Long-term debt, bonds payable	206,281,335	22,871,884	229,153,219
Note payable, Electric	-	4,989,995	-
Derivatives at fair value	6,960,279	-	6,960,279
Other liabilities	5,551,395	908,586	6,459,981
Deferred revenue	-	-	-
Deferred credit - WGA	-	-	-
	<u>268,804,645</u>	<u>31,320,579</u>	<u>295,135,229</u>
Total liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	95,942,835	31,916,059	127,858,894
Restricted	3,699,308	9,435,134	13,134,442
Unrestricted	64,487,687	8,702,577	73,190,264
	<u>164,129,830</u>	<u>50,053,770</u>	<u>214,183,600</u>
Total net assets			
Total liabilities and net assets	<u>\$ 432,934,475</u>	<u>\$ 81,374,349</u>	<u>\$ 509,318,829</u>

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

EUGENE WATER & ELECTRIC BOARD
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2006

	Electric System	Water System	Total Systems
Residential	\$ 78,789,904	\$ 8,864,948	\$ 87,654,852
Commercial and industrial	98,155,864	7,650,681	105,806,545
Sales for resale and other	73,183,532	764,428	73,947,960
Regulatory credits - net	(20,000,000)	-	(20,000,000)
Operating revenues	<u>230,129,300</u>	<u>17,280,057</u>	<u>247,409,357</u>
Purchased power	106,593,971	-	106,593,971
System control	5,011,723	-	5,011,723
Wheeling	12,903,147	-	12,903,147
Steam and hydraulic generation	12,996,160	-	12,996,160
Transmission and distribution	16,933,630	5,523,222	22,456,852
Source of supply, pumping and purification	-	3,137,274	3,137,274
Customer accounting	9,070,654	1,376,380	10,447,034
Conservation expenses	10,207,553	623,713	10,831,266
Administrative and general	15,790,867	3,094,334	18,885,201
Depreciation on utility plant	11,742,567	3,560,728	15,303,295
Operating expenses	<u>201,250,272</u>	<u>17,315,651</u>	<u>218,565,923</u>
Net operating income (loss)	<u>28,879,028</u>	<u>(35,594)</u>	<u>28,843,434</u>
Interest earnings on investments	6,595,406	763,922	7,359,328
Allowance for funds used during construction	618,395	289,455	907,850
Other revenue	1,343,798	275,213	1,619,011
Other revenues	<u>8,557,599</u>	<u>1,328,590</u>	<u>9,886,189</u>
Surplus revenue payments	12,530,907	-	12,530,907
Other revenue deductions	1,544,295	15,808	1,560,103
Interest expense and related amortization	11,494,407	1,233,930	12,728,337
Allowance for borrowed funds used during construction	(684,135)	(155,300)	(839,435)
Other expenses	<u>24,885,474</u>	<u>1,094,438</u>	<u>25,979,912</u>
Income before contributed capital	<u>12,551,153</u>	<u>198,558</u>	<u>12,749,711</u>
Contributions in aid of construction	3,928,564	1,045,392	4,973,956
Capital grants	-	-	-
System development charges	-	1,628,686	1,628,686
Contributed capital	<u>3,928,564</u>	<u>2,674,078</u>	<u>6,602,642</u>
Change in net assets	16,479,717	2,872,636	19,352,353
Total net assets at beginning of year	<u>164,129,830</u>	<u>50,053,770</u>	<u>214,183,600</u>
Total net assets at end of year	<u>\$ 180,609,547</u>	<u>\$ 52,926,406</u>	<u>\$ 233,535,953</u>

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

	Electric System	Water System	Total Systems
Residential	\$ 74,952,601	\$ 7,769,386	\$ 82,721,987
Commercial and industrial	98,033,592	6,663,814	104,697,406
Sales for resale and other	45,134,076	870,165	46,004,241
Regulatory credits - net	-	-	-
Operating revenues	<u>218,120,269</u>	<u>15,303,365</u>	<u>233,423,634</u>
Purchased power	102,004,065	-	102,004,065
System control	4,243,382	-	4,243,382
Wheeling	10,586,182	-	10,586,182
Steam and hydraulic generation	11,403,035	-	11,403,035
Transmission and distribution	14,079,774	4,887,220	18,966,994
Source of supply, pumping and purification	-	2,576,872	2,576,872
Customer accounting	7,366,564	1,082,709	8,449,273
Conservation expenses	1,653,461	570,394	2,223,855
Administrative and general	12,246,933	2,778,961	15,025,894
Depreciation on utility plant	10,976,012	2,477,362	13,453,374
Operating expenses	<u>174,559,408</u>	<u>14,373,518</u>	<u>188,932,926</u>
Net operating income	<u>43,560,861</u>	<u>929,847</u>	<u>44,490,708</u>
Interest earnings on investments	3,043,719	563,871	3,607,590
Allowance for funds used during construction	237,019	154,306	391,325
Other revenue	1,748,010	245,842	1,993,852
Other revenues	<u>5,028,748</u>	<u>964,019</u>	<u>5,992,767</u>
Surplus revenue payments	11,052,512	-	11,052,512
Other revenue deductions	7,847,624	3,410	7,851,034
Interest expense and related amortization	10,967,378	1,574,808	12,542,186
Allowance for borrowed funds used during construction	(313,100)	(85,300)	(398,400)
Other expenses	<u>29,554,414</u>	<u>1,492,918</u>	<u>31,047,332</u>
Income before contributed capital	<u>19,035,195</u>	<u>400,948</u>	<u>19,436,143</u>
Contributions in aid of construction	3,103,529	1,682,587	4,786,116
Capital grants	106,000	-	106,000
System development charges	-	2,219,103	2,219,103
Contributed capital	<u>3,209,529</u>	<u>3,901,690</u>	<u>7,111,219</u>
Change in net assets	<u>22,244,724</u>	<u>4,302,638</u>	<u>26,547,362</u>
Total net assets at beginning of year	<u>141,885,106</u>	<u>45,751,132</u>	<u>187,636,238</u>
Total net assets at end of year	<u>\$ 164,129,830</u>	<u>\$ 50,053,770</u>	<u>\$ 214,183,600</u>

See accompanying notes.

**EUGENE WATER & ELECTRIC BOARD
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006**

	Electric System	Water System	Total Systems
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 265,930,115	\$ 17,072,273	\$ 283,002,388
Other receipts	849,088	232,647	1,081,735
Power purchases	(105,113,030)	-	(105,113,030)
Payments to suppliers	(26,819,029)	(6,001,177)	(32,820,206)
Payments to employees	(80,950,839)	(6,878,483)	(87,829,322)
Surplus revenue payments	(12,525,368)	-	(12,525,368)
Net cash from operating activities	<u>41,370,937</u>	<u>4,425,260</u>	<u>45,796,197</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities	(151,770,812)	(11,429,675)	(163,200,487)
Proceeds from sale and maturities of investments	133,394,914	11,758,887	145,153,801
Interest on investments (including investment in WGA)	5,523,396	688,383	6,211,779
Distributions from equity investment in WGA	10,566,597	-	10,566,597
Net cash from investing activities	<u>(2,285,905)</u>	<u>1,017,595</u>	<u>(1,268,310)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Note receipts from Water	706,276	-	706,276
Note payments to Electric	-	(706,276)	(706,276)
Net cash from noncapital financing activities	<u>706,276</u>	<u>(706,276)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from bonds	12,797,293	-	12,797,293
Refunding of bonds	(7,890,000)	-	(7,890,000)
Bond principal payments	(12,430,462)	(905,000)	(13,335,462)
Bond issuance costs	(397,903)	-	(397,903)
Additions to utility plant, net	(21,187,914)	(4,499,620)	(25,687,534)
Interest payments	(10,881,508)	(1,059,418)	(11,940,926)
Conservation receipts from BPA	3,194,591	-	3,194,591
Additions to conservation assets and other	(4,632,774)	-	(4,632,774)
Contributed capital	3,028,400	2,674,078	5,702,478
Net cash from capital and related financing activities	<u>(38,400,277)</u>	<u>(3,789,960)</u>	<u>(42,190,237)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,391,031	946,619	2,337,650
CASH AND CASH EQUIVALENTS, beginning of year	<u>26,987,651</u>	<u>7,819,163</u>	<u>34,806,814</u>
CASH AND CASH EQUIVALENTS, end of year including cash and cash equivalents restricted or designated: \$25,931,609 and \$6,143,744 for Electric and Water, respectively.	<u>\$ 28,378,682</u>	<u>\$ 8,765,782</u>	<u>\$ 37,144,464</u>

NON-CASH CAPITAL ACTIVITY:

In 2006, the Electric System recognized \$900,000 in contribution in aid of construction resulting from projects costs to upgrade the cogeneration plant paid for by Weyerhaeuser, but owned by the Electric System.

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

	Electric System	Water System	Total Systems
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 217,929,908	\$ 15,549,205	\$ 233,479,113
Other receipts	1,503,701	262,349	1,766,050
Power purchases	(103,801,760)	-	(103,801,760)
Payments to suppliers	(32,786,802)	(5,330,948)	(38,117,750)
Payments to employees	(24,516,342)	(6,043,522)	(30,559,864)
Surplus revenue payments	(10,827,112)	-	(10,827,112)
	<u>47,501,593</u>	<u>4,437,084</u>	<u>51,938,677</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities	(95,793,486)	(26,273,151)	(122,066,637)
Proceeds from sale and maturities of investments	78,490,181	33,392,988	111,883,169
Interest on investments (including investment in WGA)	2,920,462	540,891	3,461,353
Distributions from equity investment in WGA	1,042,034	-	1,042,034
	<u>(13,340,809)</u>	<u>7,660,728</u>	<u>(5,680,081)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Note receipts from Water	230,307	-	230,307
Note payments to Electric	-	(230,307)	(230,307)
	<u>230,307</u>	<u>(230,307)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from bonds	10,841,483	12,661,225	23,502,708
Refunding of bonds	-	(21,040,047)	(21,040,047)
Bond principal payments	(6,145,000)	(860,000)	(7,005,000)
Bond issuance costs	(370,806)	(338,247)	(709,053)
Additions to utility plant, net	(18,097,080)	(4,659,131)	(22,756,211)
Interest payments	(10,202,716)	(1,710,076)	(11,912,792)
Conservation receipts from BPA	2,903,442	-	2,903,442
Additions to conservation assets and other	(11,823,740)	-	(11,823,740)
Contributed capital	3,209,529	3,901,690	7,111,219
	<u>(29,684,888)</u>	<u>(12,044,586)</u>	<u>(41,729,474)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	4,706,203	(177,081)	4,529,122
CASH AND CASH EQUIVALENTS, beginning of year	<u>22,281,448</u>	<u>7,996,244</u>	<u>30,277,692</u>
CASH AND CASH EQUIVALENTS, end of year including cash and cash equivalents restricted or designated: \$14,146,527 and \$6,421,329 for Electric and Water, respectively.	<u>\$ 26,987,651</u>	<u>\$ 7,819,163</u>	<u>\$ 34,806,814</u>

NON-CASH CAPITAL ACTIVITY:

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

See accompanying notes.

EUGENE WATER & ELECTRIC BOARD
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2006

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES			
Net operating income (loss)	\$ 28,879,028	\$ (35,594)	\$ 28,843,434
Adjustments to reconcile net operating income (loss) to net cash from operating activities			
Depreciation	11,742,567	3,560,728	15,303,295
Surplus revenue payments	(12,525,368)	-	(12,525,368)
Other revenue	1,900,181	247,121	2,147,302
Equity (income) loss from WGA	91,669	-	91,669
(Increase) decrease in assets			
Receivables	(4,202,343)	(233,516)	(4,435,859)
Materials and supplies	(144,028)	(76,283)	(220,311)
Prepayments and special deposits	67,041	287,609	354,650
Conservation loans, net	(471,321)	(14,430)	(485,751)
Long-term receivable, other	(539,505)	-	(539,505)
Prepaid retirement obligation	445,262	706,275	1,151,537
Deferred charges	(1,458,882)	(7,350)	(1,466,232)
Increase (decrease) in liabilities			
Accounts payable, accrued payroll and benefits	(3,848,230)	(27,907)	(3,876,137)
Deferred revenue	20,000,000	-	20,000,000
Other liabilities	1,434,866	18,607	1,453,473
Net cash from operating activities	<u>\$ 41,370,937</u>	<u>\$ 4,425,260</u>	<u>\$ 45,796,197</u>

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

	<u>Electric System</u>	<u>Water System</u>	<u>Total Systems</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Net operating income	\$ 43,560,861	\$ 929,847	\$ 44,490,708
Adjustments to reconcile net operating income to net cash from operating activities			
Depreciation	10,976,012	2,477,362	13,453,374
Surplus revenue payments	(10,827,112)	-	(10,827,112)
Other revenue	1,572,489	245,842	1,818,331
Equity income from WGA	(94,423)	-	(94,423)
(Increase) decrease in assets			
Receivables	(585,063)	236,530	(348,533)
Materials and supplies	(340,212)	8,789	(331,423)
Prepayments and special deposits	(979,562)	145,987	(833,575)
Conservation loans, net	223,078	6,504	229,582
Long-term receivable, other	71,714	-	71,714
Prepaid retirement obligation	921,230	230,307	1,151,537
Deferred charges	(5,832,572)	(283,223)	(6,115,795)
Increase in liabilities			
Accounts payable, accrued payroll and benefits	5,716,832	130,099	5,846,931
Deferred revenue	-	-	-
Other liabilities	3,118,321	309,040	3,427,361
Net cash from operating activities	<u>\$ 47,501,593</u>	<u>\$ 4,437,084</u>	<u>\$ 51,938,677</u>

See accompanying notes.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 1 - Reporting Entity

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

The Board provides energy and water service primarily to residential, commercial and industrial customers located in a 238 square mile area, including the City of Eugene and adjacent suburban areas. The Board has the authority to fix rates and charges. In order to secure power resources, the Board has taken ownership of various generation facilities. In addition, the Board has entered into joint ventures, whereby it has taken or anticipates taking an equity position in various generation facilities. The operations and sale of energy generated from the Board's relationship with each of the facilities is subject to certain risks. Operations are contingent on various factors, such as regulation, river flow levels, licensing agreements and weather patterns. (See Note 10).

Note 2 - Summary of Significant Accounting Policies

Method of Accounting

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

Use of Estimates

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

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications do not affect changes in total net assets previously reported.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 2 - 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 floor cost of \$5,000 or greater per item are capitalized. Repairs and minor replacements are charged to operating expenses. The cost of property and removal cost is charged to accumulated depreciation when property is retired. Included in the Board's construction work-in-progress balance are certain costs associated with obtaining or renewing licensing agreements, as well as meeting other regulatory requirements. Once the new or renewed licensing agreements are obtained, the Board transfers those costs to its depreciable utility plant to be depreciated over the estimated useful lives of the plant components. Depreciation is computed using straight-line group rates.

Cash Equivalents

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

Fair Value of Financial Instruments

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

Materials and Supplies

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

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

The Electric System has deferred certain costs for the preliminary investigation of several projects, which it believes will be viable in the future: \$14,784,200 at December 31, 2006, primarily for the application process in relicensing the Carmen-Smith Project, and secondarily for the new Roosevelt Operations site (\$11,326,700 at December 31, 2005).

Regulatory Deferrals

The Board has deferred revenues and costs to be charged to future periods as required by Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*, which states that recognition of revenues and expenses should be matched to the time periods when the revenues and expenses are included in rates.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 2 - Summary of Significant Accounting Policies (Continued)

Regulatory Deferrals (Continued)

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 (see Power Risk Management within Note 2)

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 Deferred Liabilities. The obligation is expensed to Administrative and General as payments occur. (See Note 7)

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 Deferred Liabilities. (See Notes 7 and 11)

Interest Rate Swap (see Note 9)

Regulatory Credits-Net

Regulatory credits-net represents the net effect of increases and decreases to revenue. Revenues raised through current rates for which significant associated costs will be incurred in the future, are deferred (a decrease in operating revenue) and later recognized (an increase to operating revenue) in the periods during which the associated costs for which the rates were raised, are incurred. At December 31, 2006, \$20 million in revenue raised for the relicensing of Carmen-Smith is deferred to future periods when costs will be incurred.

Debt Refundings

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 2 - Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets consist of:

- **Invested in capital assets, net of related debt** - This component of net assets consists of (a) capital assets, (b) 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** - This component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

	2006		2005	
	Electric System	Water System	Electric System	Water System
Net assets restricted for				
Capital projects	\$ 1,353,377	\$ -	\$ 393,724	\$ -
System development charges	-	9,521,195	-	9,051,266
Debt service	3,534,889	381,903	3,305,584	383,868
	<u>\$ 4,888,266</u>	<u>\$ 9,903,098</u>	<u>\$ 3,699,308</u>	<u>\$ 9,435,134</u>

- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Board Discretionary Power

Effective January 1, 2006, the Board implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. The Statement considers rate regulation by a utility's board of commissioners to be similar to the powers of a legislative body. The Statement requires disclosure of total restricted funds on hand, which result from new rates, specified for particular purposes, and which are legally required to be used for the specified purposes. The Board has broad powers to raise revenues and make judgments about the most economical uses of funds as circumstances change. Accordingly, all revenues authorized by the Board's commissioners for specific purposes, other than those restricted by contract, are included with unrestricted net assets.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 2 - Summary of Significant Accounting Policies (Continued)

Operating Revenue

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

Revenues are recorded net of the allowance for doubtful accounts. The allowance is determined by an examination of write off experience in the preceding five years, and consideration of other influences as appropriate. Total amounts written off for the year ended December 31, 2006 were \$236,100 (\$319,700 for 2005) for the Electric System, and \$15,500 for 2006 (\$19,600 for 2005) for the Water System. (See Note 5 for allowance amounts.)

Approximately 16.6% of 2006 (17.2% of 2005) Electric System's retail revenues were the result of sales to two industrial customers. Approximately 4.8% of 2006 and 2005 Water System's operating revenues were the result of sales to one industrial customer.

Surplus Revenue Payments

In accordance with Oregon Revised Statutes (ORS 225.270), the Electric System makes surplus revenue payments at the rate of 6% of retail sales and 17% of net margin on certain sales for resale to the City of Eugene. The Board makes surplus revenue payments to the City of Springfield at the rate of 6% of retail sales for customers that lie within the boundaries of the City of Springfield. Total surplus revenue expense for the year ended December 31, 2006 was \$12,530,907 (\$11,052,512 for 2005).

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 2 - Summary of Significant Accounting Policies (Continued)

Power Risk Management

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

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

In accordance with the policy guidelines, the Board utilizes derivative instruments to minimize its exposure to commodity price risk. Statement of Financial Accounting Standard (SFAS) No. 133 and related guidance requires that every derivative instrument be recorded on the balance sheet as an asset or liability measured at its fair value, on a mark-to-market basis, except as provided by the normal purchase normal sales exception to that standard. These instruments include electricity options and natural gas swaps and options. It is the Board's policy to apply, as appropriate, the normal purchase normal sales exception to SFAS No. 133. Purchases and sales of forward electricity contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales" under SFAS 133. These transactions are not required to be recorded at fair value in the financial statements. The contracts qualifying as normal purchases and normal sales have aggregate notional amounts totaling \$77,971,874 (\$56,913,626 for 2005) and extend through 2008.

At December 31, 2006, net unrealized gains from derivative instruments aggregate \$8,705,416 (\$6,960,279 for 2005). The notional amounts under such contracts totaled \$39,706,951 (\$22,848,324 for 2005) and the contracts extend through 2008.

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

Revenues and expenses associated with non-trading energy activities that are "booked out" (not physically settled) are reported on a net basis.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 2 - Summary of Significant Accounting Policies (Continued)

Environmental Expenses

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

Note 3 - Utility Plant

The major classifications and depreciable lives of utility plant in service at December 31, 2006 and 2005 are as follows:

Electric Utility Plant

	Depreciable Life -Years	Balance at December 31, 2005	Increases	Decreases	Balance at December 31, 2006
Land		\$ 5,965,628	\$ 18,447	\$ -	\$ 5,984,075
Steam production	10-25	18,046,978	138,492	-	18,185,470
Hydro production	36-50	136,512,492	14,383,501	-	150,895,993
Wind production	25	13,087,182	-	-	13,087,182
Transmission	33.3-50	54,710,019	718,140	-	55,428,159
Distribution	28.5	171,164,406	10,060,917	(505,672)	180,719,651
General plant	3-50	72,765,095	2,073,891	(362,798)	74,476,188
Total utility plant in service		472,251,800	27,393,388	(868,470)	498,776,718
Accumulated depreciation		(251,655,391)	(12,240,299)	879,971	(263,015,719)
Property held for future use		2,390,372	248,397	-	2,638,769
Construction work in progress		26,478,248	20,063,770	(23,477,333)	23,064,685
Net utility plant		<u>\$ 249,465,029</u>	<u>\$ 35,465,256</u>	<u>\$ (23,465,832)</u>	<u>\$ 261,464,453</u>

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 3 - Utility Plant (Continued)

Water Utility Plant

	Depreciable Life -Years	Balance at December 31, 2005	Increases	Decreases	Balance at December 31, 2006
Land		\$ 691,155	\$ 116,791	\$ -	\$ 807,946
Structure	50	24,051,358	630,504	-	24,681,862
Pumping	20	6,745,638	626,992	-	7,372,630
Purification	25	1,157,718	16,509	-	1,174,227
Transmission	28.5	17,196,188	54,382	-	17,250,570
Reservoirs	50	13,700,079	69,324	-	13,769,403
Distribution	28.5	32,085,730	2,927,753	-	35,013,483
Services, meters and hydrants	20-28.5	8,509,857	1,604,590	(632,011)	9,482,436
General plant	3-50	4,965,571	595,209	(95,034)	5,465,746
Total utility plant in service		109,103,294	6,642,054	(727,045)	115,018,303
Accumulated depreciation		(63,696,733)	(3,627,700)	717,177	(66,607,256)
Property held for future use		979,788	9,790	-	989,578
Construction work in progress		9,306,595	4,864,037	(6,175,041)	7,995,591
Net utility plant		<u>\$ 55,692,944</u>	<u>\$ 7,888,181</u>	<u>\$ (6,184,909)</u>	<u>\$ 57,396,216</u>

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 deposit reserve - Used to account for deposits collected from retail customers and held for future refund or application to customer account balances.

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

Systems 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.

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 4 - Cash and Investments (Continued)

Designated Cash and Investments

Purchased power reserve - Used to account for cash and investments which the Board has designated to reserve for fluctuations in purchased power costs.

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

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

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

Pension and medical reserve - Used to account for cash and investments that the Board has designated 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, 2006, were \$7,586,424. Of the bank balances, \$100,000 were covered by federal depository insurance, and \$7,486,424 were collateralized with securities held by the pledging financial institution but not in the Board's name.

The Board's investments during the year, which included obligations of the U.S. Government, are authorized by State of Oregon Statutes and bond resolutions. As of December 31, 2006, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	\$ 31,511,583	0.003	34.4%
U.S. Agency Securities	60,158,452	0.381	65.6%
Total	<u>\$ 91,670,035</u>	<u>0.251</u>	<u>100%</u>

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 4 - Cash and Investments (Continued)

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

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

With the exception of pass-through funds, the maximum amount of pooled investments to be placed in the Local Government Investment Pool is limited by State of Oregon Statute to \$39,304,918, which amount will increase proportionately to the Portland Consumer Price Index. The limit can be exceeded for ten business days.

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

Concentration of credit risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. Of the Board's total investments as of December 31, 2006, 34% was invested in the State of Oregon Local Government Investment Pool and 66% in direct obligations of the U.S. Government.

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 4 - Cash and Investments (Continued)

Cash and investments consist of the following at December 31, 2006 and 2005:

				2006	2005
	Restricted Cash and Investments	Cash and Cash Equivalents	Designated Funds	Total Carrying Amount	Total Carrying Amount
ELECTRIC SYSTEM					
Cash on hand	\$ -	\$ 11,800	\$ -	\$ 11,800	\$ 11,800
Cash in bank	-	1,588,405	2,197,565	3,785,970	2,093,314
Investments in the State of Oregon local government investment pool	8,730,433	846,868	15,003,610	24,580,911	24,882,537
Investments - direct obligations of U.S. government	13,519,164	-	38,459,203	51,978,367	33,217,018
Total electric system	<u>22,249,597</u>	<u>2,447,073</u>	<u>55,660,378</u>	<u>80,357,048</u>	<u>60,204,669</u>
WATER SYSTEM					
Cash in bank	-	1,835,110	-	1,835,110	812,726
Investments in the State of Oregon local government investment pool	3,551,525	786,928	2,592,219	6,930,672	7,006,437
Investments - direct obligations of U.S. government	6,785,085	-	1,395,000	8,180,085	8,433,759
Total water system	<u>10,336,610</u>	<u>2,622,038</u>	<u>3,987,219</u>	<u>16,945,867</u>	<u>16,252,922</u>
	<u>\$ 32,586,207</u>	<u>\$ 5,069,111</u>	<u>\$ 59,647,597</u>	<u>\$ 97,302,915</u>	<u>\$ 76,457,591</u>

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 5 - Receivables

A summary of significant receivables is as follows:

	2006		2005	
	Electric System	Water System	Electric System	Water System
Accounts receivable	\$ 37,364,090	\$ 1,303,729	\$ 33,700,883	\$ 1,150,761
Allowance for doubtful accounts	(236,074)	(15,481)	(319,699)	(19,646)
Net accounts receivable	37,128,016	1,288,248	33,381,184	1,131,115
Conservation loans to customers	1,270,941	-	1,437,112	-
Interest receivable	306,844	61,907	570,431	-
Miscellaneous receivables	1,120,183	99,669	455,910	70,764
Note receivable (Bonneville Power Administration)	268,299	-	178,359	-
Renewable Energy Production Incentive (REPI)	150,000	-	235,553	-
Receivables, less allowances	<u>\$ 40,244,283</u>	<u>\$ 1,449,824</u>	<u>\$ 36,258,549</u>	<u>\$ 1,201,879</u>
Conservation loans to customers	\$ 4,776,350		\$ 4,335,704	
Note receivable (Bonneville Power Administration)	1,432,742		836,663	
Miscellaneous	68,175		94,074	
Long-term receivables, conservation and other	<u>\$ 6,277,267</u>		<u>\$ 5,266,441</u>	

Note 6 - Payables

Current payables at December 31, 2006 and 2005 were as follows:

	2006		2005	
	Electric System	Water System	Electric System	Water System
Accounts payable	\$ 23,905,647	\$ 636,125	\$ 25,413,186	\$ 259,436
Construction payables	691,653	17,580	884,491	-
Contributions in lieu of taxes	1,350,333	-	775,805	-
Customer deposits	3,178,700	-	3,112,989	-
Due to bank/cash transfers pending	-	-	2,394,060	-
Miscellaneous payables	1,757,811	280,070	744,972	213,775
Preliminary investigations payables	1,283,312	-	1,154,044	-
Total payables	<u>\$ 32,167,456</u>	<u>\$ 933,775</u>	<u>\$ 34,479,547</u>	<u>\$ 473,211</u>

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 7 - Other Deferred Charges and Other Liabilities

Other deferred charges and other liabilities at December 31, 2006 and 2005 were as follows:

	2006		2005	
	Electric System	Water System	Electric System	Water System
Other deferred charges				
Interest rate swap - market value	\$ 317,256	\$ -	\$ 322,000	\$ -
Sick leave - upon retirement	1,378,015	344,504	1,348,613	337,153
Net pension obligation - supplemental retirement plan	1,048,607	262,152	1,048,607	262,152
Unamortized bond expense	2,868,970	751,485	2,897,008	811,383
Other	-	-	562	-
Lease prepayment	-	793,795	-	992,243
Unamortized loss on defeasance	-	49,067	-	70,097
Other deferred charges	\$ 5,612,848	\$ 2,201,003	\$ 5,616,790	\$ 2,473,028
Other liabilities				
Interest rate swap - market value	\$ 317,256	\$ -	\$ 322,000	\$ -
Sick leave - upon retirement	1,378,015	344,504	1,348,613	337,153
Net pension obligation - supplemental retirement plan	1,048,607	262,152	1,048,607	262,152
Unearned rent revenue	992,243	-	1,911,680	-
Environmental clean up	500,000	-	-	-
Member deposits - Public Agency Network	79,764	-	-	-
Note payable on land	-	-	920,495	-
Other	-	320,537	-	309,281
Other liabilities	\$ 4,315,885	\$ 927,193	\$ 5,551,395	\$ 908,586

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 8 - Investment in WGA/Deferred Credit - WGA

The Board is a party to an Intergovernmental Agency Agreement, whereby the Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling \$15,100,000, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. In October 2006, the Agency accomplished a refunding of its debt, which allowed the Board to be repaid a significant portion of the remaining equity investment. The balance of the original investment at December 31, 2006 was \$2,151,000. Distributions totaling \$13,296,300, including proceeds from the refunding, were received, of which \$10,366,600 was a preferred equity distribution. The repayment of the entire equity investment is contingent upon the successful operation of the Project and is not guaranteed. Should the Project fail to generate sufficient revenues, the repayment of the equity contribution may occur only in part or not at all. At December 31, 2006, the Board had a receivable in the amount of \$30,675 (\$568,111 at December 31, 2005) for cumulative preferred dividend on the remaining equity investment, which is included in other revenue.

The balance of the investment in Western Generation Agency includes the balance of the initial equity contribution, 50% of the Agency's net income and losses, and distributions from excess cash. With the significant repayment during 2006, and because the Project Agreements allow distributions in excess of the Agency's equity, the investment was a negative balance of \$1,931,291 at December 31, 2006 reflected as a deferred credit on the Board's Balance Sheets.

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 9 - Long-Term Debt

Long-term portion of bonds payable at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Electric Utility System Revenue and Refunding Bonds		
1996 Series, 12-10-96 issue		
Serial Bonds, 4.90% - 5.375%	\$ -	\$ 7,995,000
Term Bonds, 5.60%		4,425,000
1997 Series, 10-1-97 issue, 4.55% - 5.00%, due 2007-2011	5,285,000	6,450,000
1998 Series, 2-1-98 issue		
Serial Bonds, 4.50% - 5.10%, due 2007-2015	8,875,000	9,310,000
Term Bonds, 5.00% - 5.05%, due 2016-2022	23,875,000	23,875,000
1998 Series A, 11-15-98 issue		
Serial Bonds, 5.87% - 5.97%, due 2007-2009	775,000	1,130,000
Term Bonds, 6.22% - 6.85%, due 2010-2023	9,165,000	9,165,000
2001 Series A, 11-15-01 issue		
Term Bonds, 6.32%, due 2007-2022	25,400,000	25,660,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	4,067,556	4,067,556
2001 Series B, 11-15-01 issue		
Serial Bonds, 4.00% - 5.25%, due 2007-2022	17,875,000	18,695,000
Term bonds, 5.00%, due 2023-2031	19,140,000	19,140,000
2002 Series A, 5-7-02 issue		
5.25%, due 2007-2011	6,170,000	7,520,000
2002 Series B, 6-1-02 issue		
5.10% - 5.90%, due 2007-2012	6,710,000	7,855,000
2002 Series C, 6-1-02 issue		
3.40% - 5.0%, due 2007-2022	10,450,000	10,945,000
2003 Series, 6-10-03 issue		
3.0% - 5.0%, due 2007-2023	37,705,000	39,415,000
2005 Series, 5-10-05 issue		
Serial Bonds, 3.00% - 5.0%, due 2007-2020	6,325,000	6,690,000
Term bonds, 4.5%, due 2022 & 2025	3,530,000	3,530,000
2006 Series, 8-24-06 issue		
4.00% - 5.0%, due 2007-2026	12,455,000	-
	<u>197,802,556</u>	<u>205,867,556</u>
Add unamortized premium	2,737,949	2,986,260
Less unamortized refunding costs	(1,534,514)	(1,773,629)
Less unamortized discount	(642,692)	(798,852)
	<u>198,363,299</u>	<u>206,281,335</u>
Electric System Bonds payable		

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 9 - Long-Term Debt (Continued)

	2006	2005
Water Utility System Revenue and Refunding Bonds		
2000 Series, 6-1-00 issue, 5.20% - 5.30% due 2007-2010	1,485,000	1,935,000
2002 Series, 8-1-02 issue, 2.75% - 4.7%, due 2007-2022	9,540,000	10,000,000
2005 Series, 8-16-05 issue		
Serial Bonds, 3.5% - 5.0%, due 2011-2025	8,360,000	8,360,000
Term bonds, 4.35%, due 2030	4,180,000	4,180,000
 Note payable - Electric		
11-15-01 issue, 6.32% - 7.21%, due 2007-2027	4,283,719	4,989,995
	27,848,719	29,464,995
Add unamortized premium	111,884	118,751
Less unamortized discount	(164,442)	(174,958)
Less unamortized refunding costs	(1,449,059)	(1,546,909)
Water System bonds and note payable	26,347,102	27,861,879
Total long-term portion of debt	224,710,401	234,143,214
 Less inter-system payable	4,283,719	4,989,995
Total Systems long-term debt, bonds payable	\$ 220,426,682	\$ 229,153,219

The carrying amount and fair value of current and long-term debt at December 31, 2006 and 2005 were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Electric System	\$ 206,858,299	\$ 216,324,269	\$ 214,171,335	\$ 226,356,855
Water System	22,973,383	24,558,392	23,776,884	25,420,900
Total bonds payable	\$ 229,831,682	\$ 240,882,661	\$ 237,948,219	\$ 251,777,755

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 9 - Long-Term Debt (Continued)

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

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2007	\$ 8,495,000	\$ 10,163,708	\$ 910,000	\$ 1,040,426
2008	9,095,000	9,824,792	940,000	1,004,376
2009	9,705,000	9,415,741	985,000	965,015
2010	10,340,000	8,973,839	1,025,000	922,854
2011	11,035,000	8,493,640	940,000	877,619
2012 - 2016	44,220,000	35,619,797	5,285,000	3,838,928
2017 - 2021	65,305,000	22,143,837	6,585,000	2,587,152
2022 - 2026	35,691,016	19,909,205	4,390,000	1,239,404
2027 - 2031	12,411,540	5,718,460	3,415,000	379,320
	<u>\$ 206,297,556</u>	<u>\$ 130,263,019</u>	<u>\$ 24,475,000</u>	<u>\$ 12,855,094</u>

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply. The principal and interest requirements are reflected in the supplementary schedule "Long-Term Bonded Debt and Interest Payment Requirements." To comply with sinking fund deposit requirements, the Board deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1.

The Board entered, but had not drawn on a non-revolving demand line of credit on December 23, 2003 with a combination of prime and LIBOR interest rate for a maximum of \$30 million. The Board renewed the line of credit on December 31, 2006 with no balance outstanding.

During August 2006, the Board issued \$12,850,000 in Electric Utility Revenue Series Bonds with interest rates from 4.0% to 5.0% maturing in 2026 for the Carmen-Smith Hydroelectric Project and the new Roosevelt Operations facility.

In October of 2006, the Board received \$12,354,545 million from Western Generation Agency (the Agency) for the repayment of an equity investment in the Agency. The funds for the original equity investment were obtained from the proceeds of the 1996 bonds. On October 26, 2006 the Board used the repayment from the Agency to defease the 1996 bonds.

As of December 31, 2006, the amount of defeased debt still outstanding but removed from the Board's long-term debt amounted to \$22,327,000 for the Water System. The refunded bonds constitute a contingent liability of the Board only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements, and are therefore excluded from the financial statements because the likelihood of additional funding requirements is considered remote.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 9 - Long-Term Debt (Continued)

During May 2005, the Board issued \$10,575,000 in Electric Utility Revenue Bonds with interest rates from 3.0% to 5.0% maturing in 2025 for the Carmen-Smith Hydroelectric Project and the preliminary design of the new Roosevelt Operations facility. In August of 2005, the Water Utility issued \$12,540,000 Revenue Refunding Series Bonds with interest rates from 3.5% to 5.0% maturing in 2030 to partially refund a portion of the Water Utility Revenue Bonds Series 2000. The Board deposited \$8,707,000 of funds from the 2002 Series Bonds to pay down the 2000 Series debt.

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

Long-term debt activity for the year ended December 2006 is as follows:

	Outstanding January 1, 2006	Issued During Year	Redeemed During Year	Outstanding December 31, 2006
Electric Revenue Bonds, with interest rates from 3.0% to 6.85%, maturing through 2031 (original issue \$213,655,000)	\$ 82,125,000	\$ 12,850,000	\$ (15,920,000)	\$ 79,055,000
Electric Revenue Refunding Bonds, with interest rates from 2.0% to 5.25%, maturing through 2022 (original issue \$127,190,000)	101,725,000	-	(4,210,000)	97,515,000
Electric Revenue Current Interest Bonds, with interest rate of 6.32%, maturing through 2027 (original issue \$29,997,556)	29,907,556	-	(180,000)	29,727,556
Total Electric System	<u>213,757,556</u>	<u>12,850,000</u>	<u>(20,310,000)</u>	<u>206,297,556</u>
Water Revenue Refunding Bonds, with interest rates from 3.5% to 5.0%, maturing through 2030 (original issue \$19,155,000)	13,445,000	-	(905,000)	12,540,000
Water Revenue Bonds, with interest rates from 2.75% to 5.30%, maturing through 2022 (original issue \$31,405,000)	11,935,000	-	-	11,935,000
Total Water System	<u>25,380,000</u>	<u>-</u>	<u>(905,000)</u>	<u>24,475,000</u>
Total bonded debt	<u>\$ 239,137,556</u>	<u>\$ 12,850,000</u>	<u>\$ (21,215,000)</u>	<u>\$ 230,772,556</u>

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 9 - Long-Term Debt (Continued)

In 2004, the Board entered into a fixed-to-floating LIBOR interest rate swap to help convert a portion of its fixed long-term debt portfolio. This reduces the Board's interest rate costs relative to the Series 1998A bonds and provides a variable rate debt component within its overall debt portfolio. In the swap transaction, the counterparty pays the Board a fixed 3.65 percent interest rate on \$10,945,000 declining notional amount for four years. The Board will pay the counter-party if the 30-day LIBOR interest rate is higher than 3.65 percent. The Board has deferred \$317,300 as of December 31, 2006 (\$322,000 as of December 31, 2005) in net unrealized loss for the interest rate swap. An equivalent amount is recognized as an asset in deferred charges and as a liability in deferred credits.

Note 10 - Power Supply Resources

Bonneville Power Administration

Bonneville Power Contracts

The Board has executed with Bonneville a power sales and purchase contract for the purchase of power equal to its full federal entitlement running from October 1, 2001 through September 30, 2011. The amount is equal to approximately three quarters of the Board's current retail load. The Board selected a combination of both "Block" and "Slice of System" power products from those offered by Bonneville. Each component provides attributes that add different kinds of flexibility to the Board's power portfolio. The "Block" product provides a fixed quantity of power to EWEB that varies according to a monthly annual schedule and adjustments for conservation. Block deliveries were about 73 aMW in 2006 and will step up to about 117 aMW in 2007. The "Slice" product consists of a 2.4% Slice share of Bonneville's Federal Base System generation. The annual share is to remain fixed and will not be adjusted to reflect increases or decreases in a customer's net requirements or individual resources during the term of the contract. The customer's percentage share also will not be adjusted to reflect increases or decreases in the output of the Slice System. Actual power received under the Slice Product contract will vary with the performance of the federal based system. In years of heavy water flow, Slice Product customers may have rights to power that may be in excess of their needs, and in poor water years Slice Product customers would need to augment their share of Slice output with their own generation or market purchases.

Bonneville Transmission Contract

In 2001, the Board signed the Network Integration Transmission Service (NT) contract with Bonneville to provide transmission for the Board's generation projects and Bonneville power contracts. The NT contract expired December 31, 2006. The Board extended the contract through December 31, 2011.

Note 10 - Power Supply Resources (Continued)

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 two generating units with a nameplate capacity of 55 MW each. The Carmen-Smith Project also includes the Trailbridge re-regulating facility, which includes an additional generating unit with a nameplate capacity of 10 MW. The operating license for the Carmen-Smith Project expires on November 30, 2008. The Board submitted an application to relicense the facility to FERC on November 30, 2006. The Board cannot determine at this time when a license may be issued.

Weyerhaeuser Industrial Energy Center Cogeneration Project

The Board and the Weyerhaeuser Company cooperatively developed a cogeneration facility at the Weyerhaeuser Springfield plant in 1976. The unit, which has a nameplate capacity of 51.2 MW (average output is approximately 20 aMW), is owned by the Board, with Weyerhaeuser providing operation and fuel. Under terms of the current agreement (which expires in 2015), the project costs and output for this unit are shared equally by the parties. In addition to the unit, there are three other turbines (with a total capacity of 25 MW owned by Weyerhaeuser) at the plant. Although output and operating costs for these units are also shared by Weyerhaeuser and the Board, they do not normally operate due to high running costs.

Leaburg-Waltermville Hydroelectric Project

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

Stone Creek Hydroelectric Project

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

Smith Creek Hydro Project

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 10 - Power Supply Resources (Continued)

EWEB-Owned Resources (Continued)

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

Contract Resources

Priest Rapids and Wanapum Hydroelectric Projects

The Board has entered into agreements with Public Utility District No. 2 of Grant County, Washington (Grant County PUD) for the purchase of power from the Priest Rapids Project and the Wanapum Project, two large hydroelectric projects on the Columbia River in Washington. Together, the two projects currently provide the Board with a peak capability of 36 MW and 20 aMW of energy annually. 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. Current estimates are for power deliveries of about 15 aMW for the years 2006 through 2009. This contract will also replace the existing Wanapum contract that expires on October 31, 2009.

Stateline Wind Project

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

Tieton Hydroelectric Project

The Board entered into a purchase contract on May 17, 2001 for all of the output of the Tieton Hydroelectric Project. The project consists of a 19 MW turbine generator at the existing U.S. Bureau of Reclamation Tieton Dam. The dam currently forms Rimrock Reservoir near Yakima, Washington that is used to maintain irrigation and late fall spawning flows in the Tieton and Yakima Rivers. The project will be operated as run-of-the-river, and EWEB will purchase power on a "take-or-pay" basis for 25 years from the date commercial operations began in September of 2006.

Note 11 - Retirement Benefits

Plan Description

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

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

Funding Policy

In November of 2006, the Board elected to make a lump-sum payment of \$7.2 million which lowered the employer contribution rate from 23.51% to 21.93%. Also, in November of 2006 OPERS issued a rate order to implement new employer rates on July 1, 2007 as the result of the December 31, 2005 actuarial valuation. The Board's new average rate is 21.72% of covered payroll effective July 1, 2007.

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

In December 2001, the Board elected to make a lump-sum payment of approximately \$29,600,000, which had the effect of lowering the employer contribution rate. The lump sum payment is recorded as an other asset and is being amortized over the funding period of 27 years. The amortization was \$1,152,000 for 2006 and 2005.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 11 - Retirement Benefits (Continued)

Annual Pension Cost

Because all OPERS participating employers are required by law to submit the contributions as adopted by the Retirement Board, and because employer contributions are calculated in conformance with the parameters of GASB No. 27, *Accounting for Pensions by State and Local Government Employers*, there is no net pension obligation to report, and annual required contributions are equal to annual pension cost. For the year ended December 31, 2006, the Board's annual pension expense of \$9,282,000 consisted of the employer portion of \$7,356,000 and the annual required contribution of approximately \$1,926,000 (an average for 2006 of 23% of covered payroll and 6%, respectively).

The Board's pension liability and the annual required contribution rate were determined as part of the December 31, 2005 actuarial valuation using the projected unit credit method. The unfunded actuarial accrued liability is amortized as a level percentage of combined valuation payroll over a 22-year period. The actuarial assumptions include a rate of return on investment of present and future assets of 8.0% per year, projected salary increases of 3.75%, and cost-of-living adjustments of 2.0% per year for postretirement benefits. Investment return and projected salary increases include an inflation component of 2.75%.

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

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
2003	\$ 5,067,900	100%
2004	\$ 6,804,000	100%
2005	\$ 9,282,000	100%

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

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Actuarial Liability</u>	<u>Unfunded Actuarial Liability (UAL)</u>	<u>Percent of Actuarial Liability Funded</u>	<u>Covered Payroll</u>	<u>UAL/Payroll</u>
12-31-03	\$ 186,436,249	\$ 235,598,684	\$ 49,162,435	79%	\$ 27,419,888	179%
12-31-04	\$ 189,787,687	\$ 254,131,374	\$ 64,343,687	75%	\$ 29,766,536	216%
12-31-05	\$ 215,616,585	\$ 262,997,715	\$ 47,381,130	82%	\$ 31,425,822	151%

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 11 - Retirement Benefits (Continued)

The Supplemental Retirement Plan

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

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

Annual pension cost - Employer contributions are calculated and made in conformity with the parameters of GASB No. 27. The Board's annual pension cost is based upon its latest actuarial report, dated January 1, 2005, with the next actuarial valuation for the year ended December 31, 2006 scheduled to be completed during 2007.

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

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

	2005
Annual recommended contribution	\$ 487,194
Interest on net pension obligation	103,630
Adjustment to annual recommended contribution	(190,777)
Annual pension cost	400,047
Contributions made	569,716
Decrease in net pension obligation	(169,669)
Net pension obligation, January 1	1,480,428
Net pension obligation, December 31	\$ 1,310,759

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 11 - Retirement Benefits (Continued)

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

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

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

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

Postretirement Medical Benefit Plan

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

GASB No. 12, *Disclosure of Information of Postemployment Benefits Other Than Pension Benefits by State and Local Government Employers*, discusses two methods for funding the above postretirement benefits. The method the Board continues to use is the "pay-as-you-go" method, resulting in recognized expenses in 2006 of approximately \$1,234,000 for the Electric System and \$202,000 for the Water System (\$1,050,000 and \$171,000 in 2005, respectively).

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 12 - Deferred Compensation

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

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

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

Note 13 - Trojan Nuclear Plant

The Trojan Nuclear Plant (Project) is jointly owned by Portland General Electric Company (PGE), 67.5%; the City of Eugene, acting by and through Eugene Water & Electric Board, 30%; and Pacific Power and Light Company, 2.5%; as tenants in common. The Project ceased commercial operation in 1993 and is being decommissioned. In accordance with 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.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 13 - Trojan Nuclear Plant (Continued)

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

In 2005, the Board on behalf of the Project issued \$26,640,000 in revenue bonds with \$16,000,000 outstanding as of December 31, 2006. These bonds are secured solely by a pledge of the receipts from Trojan Project fees and charges associated with the Two-Party Net Billing Agreement with BPA. The bonds are considered conduit debt and as such are not required to be recorded in the financial statements of the Board.

A summary of the unaudited balance sheet for EWEB's share of the Trojan Project as of September 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Assets		
Restricted cash and investments	\$ 721,297	\$ 717,762
Current assets	8,826,382	9,611,548
Long-term receivable, BPA, net	56,145,230	62,017,332
Deferred charges and other	281,862	542,006
Total assets	<u>\$ 65,974,771</u>	<u>\$ 72,888,648</u>
Liabilities		
Current liabilities	\$ 8,981,156	\$ 8,412,812
Long-term debt	7,832,148	15,321,041
Accumulated provision for decommissioning costs	49,161,467	49,154,795
Total liabilities	<u>\$ 65,974,771</u>	<u>\$ 72,888,648</u>

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

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 14 - Commitments and Contingencies

Carmen-Smith Relicensing

In November 2006, the Board filed a Final License Application with the Federal Energy Regulatory Commission (FERC) for the Carmen-Smith Hydroelectric Project. The Board expects to spend \$3.6 million in years 2007-2008 participating in the FERC relicensing process and settlement negotiations with regulatory agencies and interested parties. Contractual commitments at December 31, 2006 were \$1.5 million, primarily for environmental analysis and engineering.

Water Projects

At December 31, 2006, the Board had contractual commitments of \$905,000 for construction, primarily for improvements at one reservoir.

Self-Insurance

The Board is exposed to various risks of loss because of the Board's self-insurance retention, up to the first \$1,000,000 of exposure, per occurrence. The purchased excess liability coverage protects the Board after the Board's self-insured limit is exhausted. However, public entities are also protected under State of Oregon tort limits, which greatly reduces the cost of any single exposure (from \$50,000 to \$500,000 depending on the damages), so therefore, except in extreme cases, the Board's exposure is mitigated by law.

Claims liabilities recorded in the basic financial statements are based on the estimated ultimate loss and reserves for claims incurred as of the balance sheet date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported (IBNR) claims. At December 31, 2006, a total claims liability of approximately \$817,000 is reported in the basic financial statements. All prior and current-year claims are fully reserved and have not been discounted.

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2004	General liability	\$ 293,960	\$ 164,260	\$ (103,950)	\$ 354,270
2005	General liability	\$ 354,270	\$ (23,918)	\$ (110,417)	\$ 219,935
2006	General liability	\$ 219,935	\$ 723,631	\$ (126,141)	\$ 817,425

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 14 - Commitments and Contingencies (Continued)

Claims and Other Legal Proceedings

The Board was a party to various litigation contending that parties, including the Board, bought and sold electric energy in the wholesale power markets during the California energy crisis, and charged unjust and/or unreasonable prices. Refund claims were asserted against the Board. On September 6, 2005, the U.S. Ninth Circuit Court of Appeals issued a ruling in the case of BPA et al v. FERC. The Ninth Circuit ruled that FERC does not have jurisdiction to impose refunds for wholesale transactions of government entities. The ruling is subject to rehearing by the Ninth Circuit and possible appeal to the United States Supreme Court. On November 13, 2006, several parties requested rehearing of this ruling by the Ninth Circuit. The decision in BPA et al v. FERC has a significant impact on all FERC proceedings seeking refunds from the Board. Unless this ruling is overturned, it provides a defense to any FERC proceedings seeking refunds.

On September 14, 2006 the California Department of Water Resources (CDWR) filed a "Complaint for Rescission, Restitution, Damages and Declaratory Relief" against the Board in the superior Court of the State of California. The complaint seeks rescission of Board energy sales to CDWR in 2001, restitution and unspecified damages. The CDWR litigation involves approximately \$98 million of wholesale energy sales to CDWR in 2001. On November 15, 2006, the Board filed a motion to quash service of summons, and in the alternative, a motion to stay the proceedings.

On July 17, 2006, the Board filed a Petition for "Judicial Validation of Contract and Complaint for Declaratory Relief" seeking a judicial determination that Board wholesale energy sales to CDWR in 2001 are valid, legal and enforceable. The Board also seeks a judicial declaration that CDWR's claims of breach of contract, rescission, unjust enrichment, restitution, undue influence and void as against public policies are barred or without basis, and enjoining CDWR from future challenge to the power transaction. The petition and complaint involve approximately \$498 million in wholesale energy sales to CDWR in 2001. On September 18, 2006 CDWR filed a motion to dismiss the petition and complaint. After briefing and oral argument, the court denied CDWR's petition to Dismiss on December 22, 2006.

In 2003, EWEB enacted reforms in its post-retirement medical benefit plan that generally raised the contributions required for participation in the medical plan. In January 2005, EWEB received an adverse Lane County Circuit Court ruling on its reforms. EWEB is in the process of appealing the lawsuit and believes it will prevail. In November 2005, a separate lawsuit was filed in Lane County Circuit Court requesting a class certification in the above matter.

No provision has been made in the accompanying financial statements or note disclosures for any of the above mentioned matters.

The Board is involved in various other litigation. In the opinion of management, the ultimate outcome of these claims will not have a material effect on the Board's financial position beyond amounts already accrued as of December 31, 2006.

**EUGENE WATER & ELECTRIC BOARD
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

Note 14 - Commitments and Contingencies (Continued)

Environmental Matters

The Board owns land near its headquarters, which is contaminated from a former manufactured gas plant. Under a participant agreement with other entities, the Board shares in 16 and 2/3% of the clean up costs. Based on a feasibility study conducted by environmental consultants and the Department of Environmental Quality's stated preferences for similar contaminations, \$500,000 is included with long-term liabilities as an estimate for clean up and maintenance of the site, which has yet to commence.

SUPPLEMENTAL INFORMATION

**EUGENE WATER & ELECTRIC BOARD
ELECTRIC SYSTEM
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION
YEAR ENDED DECEMBER 31, 2006**

	Refunding Revenue Bonds 1997 Series 11-4-97		Refunding Revenue Bonds 1998 Series 2-1-98		Revenue Bonds 1998 Series A 11-15-98	
	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 1,165,000	\$ 309,658	\$ 435,000	\$ 1,647,640	\$ 355,000
2008	1,225,000	256,650	540,000	1,625,455	375,000	658,857
2009	1,285,000	199,075	650,000	1,597,915	400,000	636,657
2010	1,355,000	137,395	770,000	1,568,655	420,000	612,777
2011	1,420,000	71,000	895,000	1,533,245	450,000	586,653
2012	-	-	1,035,000	1,491,180	475,000	558,663
2013	-	-	1,190,000	1,442,018	505,000	529,118
2014	-	-	1,765,000	1,384,898	535,000	497,707
2015	-	-	2,030,000	1,300,178	570,000	464,430
2016	-	-	2,315,000	1,201,723	610,000	425,385
2017	-	-	2,635,000	1,085,973	650,000	383,600
2018	-	-	2,980,000	954,223	695,000	339,075
2019	-	-	3,350,000	805,223	740,000	291,468
2020	-	-	3,750,000	636,048	795,000	240,778
2021	-	-	4,190,000	446,673	850,000	186,320
2022	-	-	4,655,000	235,070	905,000	128,095
2023	-	-	-	-	965,000	66,099
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
	<u>6,450,000</u>	<u>973,778</u>	<u>33,185,000</u>	<u>18,956,117</u>	<u>10,295,000</u>	<u>7,285,378</u>
Less current	1,165,000	-	435,000	-	355,000	-
	<u>\$ 5,285,000</u>	<u>\$ 973,778</u>	<u>\$ 32,750,000</u>	<u>\$ 18,956,117</u>	<u>\$ 9,940,000</u>	<u>\$ 7,285,378</u>

**EUGENE WATER & ELECTRIC BOARD
ELECTRIC SYSTEM
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION
YEAR ENDED DECEMBER 31, 2006**

	2001A Series Current Interest 11-15-01		Revenue Bonds 2001 B Series 11-15-01		Refunding Revenue Bonds 2002 A Series 5-7-02	
	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 260,000	\$ 1,621,712	\$ 820,000	\$ 1,870,363	\$ 1,350,000
2008	390,000	1,605,280	855,000	1,837,563	1,425,000	323,925
2009	510,000	1,580,632	890,000	1,803,363	1,500,000	249,113
2010	645,000	1,548,400	925,000	1,767,763	1,575,000	170,363
2011	790,000	1,507,636	960,000	1,730,763	1,670,000	87,675
2012	950,000	1,457,708	1,000,000	1,692,363	-	-
2013	1,125,000	1,397,668	1,040,000	1,652,363	-	-
2014	1,310,000	1,326,568	1,095,000	1,597,763	-	-
2015	1,520,000	1,243,776	1,155,000	1,540,275	-	-
2016	1,745,000	1,147,712	1,215,000	1,479,638	-	-
2017	1,990,000	1,037,428	1,275,000	1,415,850	-	-
2018	2,255,000	911,660	1,345,000	1,348,913	-	-
2019	2,545,000	769,144	1,415,000	1,278,300	-	-
2020	2,860,000	608,300	1,490,000	1,204,013	-	-
2021	3,200,000	427,548	1,565,000	1,125,788	-	-
2022	3,565,000	225,308	1,650,000	1,043,625	-	-
2023	867,106	3,097,894	1,735,000	957,000	-	-
2024	839,611	3,305,389	1,825,000	870,250	-	-
2025	814,720	3,520,280	1,915,000	779,000	-	-
2026	789,579	3,740,421	2,010,000	683,250	-	-
2027	756,540	3,913,460	2,110,000	582,750	-	-
2028	-	-	2,215,000	477,250	-	-
2029	-	-	2,325,000	366,500	-	-
2030	-	-	2,440,000	250,250	-	-
2031	-	-	2,565,000	128,250	-	-
	<u>29,727,556</u>	<u>35,993,924</u>	<u>37,835,000</u>	<u>29,483,206</u>	<u>7,520,000</u>	<u>1,225,876</u>
Less current	260,000	-	820,000	-	1,350,000	-
	<u>\$ 29,467,556</u>	<u>\$ 35,993,924</u>	<u>\$ 37,015,000</u>	<u>\$ 29,483,206</u>	<u>\$ 6,170,000</u>	<u>\$ 1,225,876</u>

**EUGENE WATER & ELECTRIC BOARD
ELECTRIC SYSTEM
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION
YEAR ENDED DECEMBER 31, 2006**

	Revenue Bonds 2002 B Series 5-22-02		Revenue and Refunding 2002 C Series 5-22-02		Revenue and Refunding 2003 Series 6-10-03	
	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 1,145,000	\$ 441,666	\$ 495,000	\$ 500,119	\$ 1,710,000
2008	1,200,000	383,271	505,000	483,289	1,770,000	1,702,088
2009	1,265,000	320,871	530,000	464,351	1,830,000	1,648,987
2010	1,335,000	248,766	550,000	443,681	1,890,000	1,594,088
2011	1,415,000	171,336	575,000	420,994	1,950,000	1,537,387
2012	1,495,000	88,205	600,000	396,556	2,035,000	1,459,388
2013	-	-	620,000	370,756	2,125,000	1,377,987
2014	-	-	650,000	343,476	2,200,000	1,292,988
2015	-	-	680,000	314,226	2,315,000	1,182,987
2016	-	-	710,000	282,776	2,435,000	1,067,238
2017	-	-	740,000	249,051	2,565,000	945,487
2018	-	-	775,000	213,531	2,695,000	817,238
2019	-	-	815,000	175,750	2,835,000	682,487
2020	-	-	855,000	135,000	2,985,000	540,738
2021	-	-	900,000	92,250	3,140,000	391,487
2022	-	-	945,000	47,250	3,300,000	234,488
2023	-	-	-	-	1,635,000	69,488
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
2026	-	-	-	-	-	-
2027	-	-	-	-	-	-
2028	-	-	-	-	-	-
2029	-	-	-	-	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
	<u>7,855,000</u>	<u>1,654,115</u>	<u>10,945,000</u>	<u>4,933,056</u>	<u>39,415,000</u>	<u>18,297,938</u>
Less current	1,145,000	-	495,000	-	1,710,000	-
	<u>\$ 6,710,000</u>	<u>\$ 1,654,115</u>	<u>\$ 10,450,000</u>	<u>\$ 4,933,056</u>	<u>\$ 37,705,000</u>	<u>\$ 18,297,938</u>

**EUGENE WATER & ELECTRIC BOARD
ELECTRIC SYSTEM
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION
YEAR ENDED DECEMBER 31, 2006**

	Revenue 2005 Series 05-10-05		Revenue 2006 Series 08-24-06		Total Electric System Payments		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2007	\$ 365,000	\$ 439,938	\$ 395,000	\$ 504,729	\$ 8,495,000	\$ 10,163,708	\$ 18,658,708
2008	375,000	428,987	435,000	519,427	9,095,000	9,824,792	18,919,792
2009	390,000	414,925	455,000	499,852	9,705,000	9,415,741	19,120,741
2010	405,000	400,300	470,000	481,651	10,340,000	8,973,839	19,313,839
2011	420,000	384,100	490,000	462,851	11,035,000	8,493,640	19,528,640
2012	440,000	366,250	510,000	440,801	8,540,000	7,951,114	16,491,114
2013	460,000	347,550	530,000	420,401	7,595,000	7,537,861	15,132,861
2014	480,000	326,850	550,000	399,201	8,585,000	7,169,451	15,754,451
2015	500,000	305,250	575,000	374,451	9,345,000	6,725,573	16,070,573
2016	525,000	282,750	600,000	348,576	10,155,000	6,235,798	16,390,798
2017	550,000	256,500	625,000	324,576	11,030,000	5,698,465	16,728,465
2018	570,000	234,500	655,000	299,576	11,970,000	5,118,716	17,088,716
2019	595,000	210,275	690,000	273,376	12,985,000	4,486,023	17,471,023
2020	615,000	184,988	720,000	245,776	14,070,000	3,795,641	17,865,641
2021	645,000	158,850	760,000	216,076	15,250,000	3,044,992	18,294,992
2022	675,000	129,825	795,000	184,726	16,490,000	2,228,387	18,718,387
2023	705,000	99,450	835,000	151,933	6,742,106	4,441,864	11,183,970
2024	735,000	67,725	875,000	116,863	4,274,611	4,360,227	8,634,838
2025	770,000	34,650	920,000	80,113	4,419,720	4,414,043	8,833,763
2026	-	-	965,000	41,013	3,764,579	4,464,684	8,229,263
2027	-	-	-	-	2,866,540	4,496,210	7,362,750
2028	-	-	-	-	2,215,000	477,250	2,692,250
2029	-	-	-	-	2,325,000	366,500	2,691,500
2030	-	-	-	-	2,440,000	250,250	2,690,250
2031	-	-	-	-	2,565,000	128,250	2,693,250
	<u>10,220,000</u>	<u>5,073,663</u>	<u>12,850,000</u>	<u>6,385,968</u>	<u>206,297,556</u>	<u>130,263,019</u>	<u>336,560,575</u>
Less current	365,000	-	395,000	-	8,495,000	-	8,495,000
	<u>\$ 9,855,000</u>	<u>\$ 5,073,663</u>	<u>\$ 12,455,000</u>	<u>\$ 6,385,968</u>	<u>\$ 197,802,556</u>	<u>\$ 130,263,019</u>	<u>\$ 328,065,575</u>

**EUGENE WATER & ELECTRIC BOARD
WATER SYSTEM
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION
YEAR ENDED DECEMBER 31, 2006**

	Revenue Bonds 2000 Series 1-1-00		Revenue Bonds 2002 Series 7-16-02	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2007	450,000	101,870	460,000	406,101
2008	470,000	78,470	470,000	393,451
2009	495,000	53,796	490,000	378,764
2010	520,000	27,560	505,000	362,839
2011	-	-	525,000	345,164
2012	-	-	545,000	326,264
2013	-	-	570,000	305,826
2014	-	-	595,000	283,596
2015	-	-	620,000	259,796
2016	-	-	645,000	234,221
2017	-	-	675,000	206,809
2018	-	-	710,000	178,121
2019	-	-	740,000	147,059
2020	-	-	780,000	113,759
2021	-	-	815,000	77,879
2022	-	-	855,000	40,185
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	-	-
	<u>1,935,000</u>	<u>261,696</u>	<u>10,000,000</u>	<u>4,059,834</u>
Less current	450,000	-	460,000	-
	<u>\$ 1,485,000</u>	<u>\$ 261,696</u>	<u>\$ 9,540,000</u>	<u>\$ 4,059,834</u>

**EUGENE WATER & ELECTRIC BOARD
WATER SYSTEM
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS, INCLUDING CURRENT PORTION
YEAR ENDED DECEMBER 31, 2006**

	Revenue Bonds Refunding 2005 Series 7-26-05		Total Water System Payments		
	Principal	Interest	Principal	Interest	Totals
	2007	\$ -	\$ 532,455	\$ 910,000	\$ 1,040,426
2008	-	532,455	940,000	1,004,376	1,944,376
2009	-	532,455	985,000	965,015	1,950,015
2010	-	532,455	1,025,000	922,854	1,947,854
2011	415,000	532,455	940,000	877,619	1,817,619
2012	430,000	517,930	975,000	844,194	1,819,194
2013	445,000	502,880	1,015,000	808,706	1,823,706
2014	460,000	487,305	1,055,000	770,901	1,825,901
2015	475,000	470,055	1,095,000	729,851	1,824,851
2016	500,000	451,055	1,145,000	685,276	1,830,276
2017	520,000	426,055	1,195,000	632,864	1,827,864
2018	545,000	400,055	1,255,000	578,176	1,833,176
2019	570,000	372,805	1,310,000	519,864	1,829,864
2020	600,000	344,305	1,380,000	458,064	1,838,064
2021	630,000	320,305	1,445,000	398,184	1,843,184
2022	655,000	295,105	1,510,000	335,290	1,845,290
2023	675,000	268,905	675,000	268,905	943,905
2024	705,000	241,230	705,000	241,230	946,230
2025	735,000	212,149	735,000	212,149	947,149
2026	765,000	181,830	765,000	181,830	946,830
2027	800,000	148,552	800,000	148,552	948,552
2028	835,000	113,753	835,000	113,753	948,753
2029	870,000	77,430	870,000	77,430	947,430
2030	910,000	39,585	910,000	39,585	949,585
	<u>12,540,000</u>	<u>8,533,564</u>	<u>24,475,000</u>	<u>12,855,094</u>	<u>37,330,094</u>
Less current	-	-	910,000	-	910,000
	<u>\$ 12,540,000</u>	<u>\$ 8,533,564</u>	<u>\$ 23,565,000</u>	<u>\$ 12,855,094</u>	<u>\$ 36,420,094</u>

**EUGENE WATER & ELECTRIC BOARD
ELECTRIC SYSTEM
ANALYSIS OF CERTAIN RESTRICTED CASH AND INVESTMENTS FOR DEBT SERVICE
YEAR ENDED DECEMBER 31, 2006**

	Bond Funds Debt Service Account	Construction Funds	Customer Deposit Reserve	Total All Funds
Ending balance - December 31, 2005	\$ 7,749,842	\$ 2,270,793	\$ 3,112,968	\$ 13,133,603
Proceeds from bond issue	-	12,797,293	-	12,797,293
Deposits from general fund	18,670,550	1,135,057	185,284	19,990,891
Interest earnings	308,710	280,642	4,668	594,020
Other transfers	12,230,204	-	-	12,230,204
Receipts	<u>31,209,464</u>	<u>14,212,992</u>	<u>189,952</u>	<u>45,612,408</u>
Principal payments	7,890,000	-	-	7,890,000
Interest payments	10,666,211	-	-	10,666,211
Defeasance	12,653,421	-	-	12,653,421
Transfers to general fund	-	5,286,782	-	5,286,782
Disbursements	<u>31,209,632</u>	<u>5,286,782</u>	<u>-</u>	<u>36,496,414</u>
U.S. Government securities, at market	7,749,674	5,769,490	-	13,519,164
State of Oregon Local Government Investment Pool	-	5,427,513	3,302,920	8,730,433
Ending balance - December 31, 2006	<u>\$ 7,749,674</u>	<u>\$ 11,197,003</u>	<u>\$ 3,302,920</u>	<u>\$ 22,249,597</u>

**EUGENE WATER & ELECTRIC BOARD
WATER SYSTEM
ANALYSIS OF CERTAIN RESTRICTED CASH AND INVESTMENTS FOR DEBT SERVICE
YEAR ENDED DECEMBER 31, 2006**

	Bond Funds Debt Service Account	SDC Reserves	Total All Funds
	<u> </u>	<u> </u>	<u> </u>
Ending balance - December 31, 2005	\$ 825,293	\$ 9,051,266	\$ 9,876,559
Proceeds from bond issue	-	-	-
Deposits from general fund	1,928,850	1,427,082	3,355,932
Interest earnings	32,556	404,611	437,167
Receipts	<u>1,961,406</u>	<u>1,831,693</u>	<u>3,793,099</u>
Principal payments	905,000	-	905,000
Interest payments	1,059,418	-	1,059,418
Transfers to general fund	6,866	1,361,764	1,368,630
Disbursements	<u>1,971,284</u>	<u>1,361,764</u>	<u>3,333,048</u>
U.S. Government securities, at market	815,415	5,969,670	6,785,085
State of Oregon Local Government Investment Pool	-	3,551,525	3,551,525
Ending balance - December 31, 2006	<u>\$ 815,415</u>	<u>\$ 9,521,195</u>	<u>\$ 10,336,610</u>

AUDIT COMMENTS

(DISCLOSURES AND COMMENTS REQUIRED BY STATE REGULATIONS)

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

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

February 1, 2007

To the Board of Commissioners
Eugene Water & Electric Board

We have audited the accompanying financial statements of the Electric System and Water System of Eugene Water & Electric Board (Board) as of and for the year ended December 31, 2006 and have issued our report thereon dated February 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal controls that might be a significant deficiency or material weaknesses. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies or material weaknesses. Other internal control issues are addressed in our letter to the Board of Commissioners dated February 1, 2007.

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

Moss Adams LLP

For Moss Adams LLP
Certified Public Accountants