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

March 28, 2018
VPN-003-2018

Trojan ISFSI
Docket 72-17
License SNM-2509

ATTN: Document Control Desk
Director, Division of Spent Fuel Management
Office of Nuclear Material Safety and Safeguards
U.S. Nuclear Regulatory Commission
Washington, DC 20555-0001

Annual Financial Report for Year 2017

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. Therefore, in accordance with 10 CFR 72.80(b), only EWEB is required to submit an Annual Financial Report.

The enclosed document, "Independent Auditor's Reports and Financial Statements, December 31, 2017 and 2016," is the submittal for EWEB.

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

Sincerely,

Brad Jenkins

Bradley Y. Jenkins
Vice President,
Generation & Power Operations

Enclosure

c: Director, NRC, Region IV, DNMS
Todd Cornett, Siting Division Administrator, ODOE
Susan Eicher, EWEB (w/o enclosures)
Chuck Tack, PacifiCorp (w/o enclosures)
Dana Sandlin, BPA (w/o enclosures)

NMSS20
NMSS26

EWEB

Eugene Water & Electric Board

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016

TABLE OF CONTENTS

Board of Commissioners and Officers 1

Report of Independent Auditors .... 2 – 4

Management's Discussion and Analysis .... 5 – 20

Financial Statements
Statements of net position .... 21 – 22
Statements of revenues, expenses and changes in net position .... 23 – 24
Statements of cash flows .... 25 – 27
Notes to financial statements .... 28 – 78

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 79 – 80

Supplementary Information
Schedule of proportionate share of the net pension liability as of June 30, 2017 81
Schedule of contributions as of June 30, 2017 82
Electric System long-term bonded debt and interest payment requirements, including current portion (unaudited) .... 83 – 84
Water System long-term bonded debt and interest payment requirements, including current portion (unaudited) 85
Electric system analysis of certain restricted cash and investments for debt service (unaudited) 86
Water system analysis of certain restricted cash and investments for debt service (unaudited) 87
Sustainability Accounting Standards Disclosures (Unaudited) .... 88 – 89

Audit Comments
Report of Independent Auditors on Compliance on Internal Controls Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Oregon Audit Standards* .... 90 – 91

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Eugene Water & Electric Board

Board of Commissioners

Mr. Dick Helgeson, Wards 2 & 3, President

Mr. John Brown, Wards 4 & 5, Vice-president

Ms. Sonya Carlson, Wards 6 & 7, Member

Mr. Steve Mital, Wards 1 & 8, Member

Mr. John Simpson, "At Large," Member

Officers

Mr. Frank Lawson, General Manager, Secretary

Ms. Anne Kah, Assistant Secretary

Ms. Susan Fahey, Treasurer

Ms. Susan Eicher, Assistant Treasurer

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Report of Independent Auditors

The Board of Directors Commissioners
Eugene Water & Electric Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric System, Water System and Combined Total Systems of Eugene Water & Electric Board (the "Board"), which comprise the individual and combined statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the individual and combined financial statements referred to above present fairly, in all material respects, the financial position of the Board as of December 31, 2017 and 2016, and the results of its individual and combined operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of contributions (collectively, required supplementary information) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements. The Electric System and Water System long-term bonded debt and interest payment requirements (including current portion) schedules and the Electric System and Water System analysis of certain restricted cash and investments for debt service schedules and sustainability accounting standards disclosures ("supplementary information") are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Reports of Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated March 19, 2018 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Other Reporting Required by Minimum Standards for Audits of Oregon Municipal Corporations

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated March 19, 2018, on our consideration of the Board's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Julie Desimone

For Moss Adams LLP
Portland, Oregon
March 19, 2018

The following discussion provides an overview of the financial results of the Eugene Water & Electric Board (EWEB) for the years ended 2017, 2016, and 2015. This unaudited discussion is intended to be used in conjunction with the financial statements and note disclosures following this section.

EWEB is the largest publicly-owned electric and water utility in Oregon. The City of Eugene (the City) commenced utility operations in 1908 with the purchase of a privately-owned water system. In 1911, upon completion of the City's first municipal hydroelectric power plant, the City organized the Eugene Water Board to operate the City's electric and water utilities. The name of the Eugene Water Board was changed to the Eugene Water & Electric Board in 1949.

EWEB is chartered by the City and supplies electric and water service within the city limits of Eugene and to certain areas outside the city limits. EWEB operates as a primary government, and is not considered a component unit of the City. EWEB is governed by a five member Board of Commissioners who are elected by voters residing in the City. The Board of Commissioners has authority to set prices for water and electric services. Prices are set based on the cost of service delivery, including operating, capital, and debt service expenses.

The Statements of Net Position report assets, deferred outflows, liabilities, deferred inflows and net position as of the end of the financial year, December 31. The Statements of Revenues, Expenses and Changes in Net Position report revenues and expenses occurring during the financial year. The Statements of Cash Flows report cash from operating activities, investing activities, non-capital financing activities as well as capital and related financing activities.

Electric System

The Electric System supplies service to 93,000 residential, commercial, and industrial customers within the City of Eugene and areas along the McKenzie River between the cities of Walterville and Vida where two of EWEB's hydro-power plants are located. The total service area covers 236 square miles. The Electric System owns and operates 1,136 circuit miles of overhead and underground distribution lines, and 129 circuit miles of transmission lines. Power delivered to customers is supplied by Bonneville Power Administration (BPA) contracts, EWEB-owned generation resources, other contracted resources, and purchases from the wholesale energy markets. EWEB's power supply sources are primarily hydro-power, but also includes wind, biomass, steam, and solar.

2017	MWh	
Hydro-power	3,114,840	66%
Wind	159,577	3%
Steam	222,772	5%
Biomass	117,961	2%
Other market purchases	1,135,662	24%
	4,750,813	100%

2017	MWh	
EWEB owned generation	778,413	16%
Contracted generation	2,836,737	60%
Market purchases	1,135,662	24%
	4,750,813	100%

Net Operating Revenue

Electric System net operating revenue for 2017 increased compared to both 2016 and 2015. Increases were primarily due to higher residential electric consumption as a result of colder than average weather in early 2017 as well as focused efforts to reduce operating expenses despite increasing purchased power costs.

Electric System - Net Operating Revenue

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Operating revenue	$ 254,645	$ 245,250	$ 238,983	$ 9,395	$ 15,662
Operating expense	(227,623)	(229,756)	(217,418)	(2,133)	10,205
Net operating revenue	$ 27,022	$ 15,494	$ 21,565	$ 11,528	$ 5,457

Operating Revenue

Operating Revenue varies from year to year based on customer load, generation available for sale, and the market prices for generation available for sale. Residential customers make up approximately 90% of EWEB's customer base and approximately 50% of customer revenue. Sales to residential customers are variable based on weather trends. Operating revenue from residential customers was impacted by cold weather in the first quarter of 2017, a time when consumption is generally at its peak for the year. The first quarter of 2016 and 2015 were warm compared to historical weather trends.

Recent residential price adjustments have been as follows:

2017	no change
2016 (effective February 2016)	2.5% increase
2015	no change

Commercial and industrial sales make up 10% of the EWEB customer base, and approximately 50% of customer revenue. Commercial and industrial sales are more reactive to economic conditions than weather conditions. Commercial and industrial sales have increased compared to both 2016 and 2015 as economic conditions continue to improve.

Electric System - Sales to Customers

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Residential	$ 104,263	$ 94,670	$ 93,321	$ 9,593	$ 10,942
Commercial and industrial	103,115	100,193	98,153	2,922	4,962
	$ 207,378	$ 194,863	$ 191,474	$ 12,515	$ 15,904

Electric System - Sales to Customers MWh

	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Residential	986,093	887,738	893,001	98,355	93,092
Commercial and industrial	1,468,808	1,400,318	1,412,019	68,490	56,789
	2,454,901	2,288,056	2,305,020	166,845	149,881

Power supply in excess of load is sold into the wholesale markets. The Electric System has an active hedging program to ensure prices for power sold into the wholesale market do not drop below the amount anticipated in the annual budget. Prices for market sales remain at historic lows, largely due to downward pressure on prices from low cost natural gas powered resources and favorable hydroelectric generation in 2017. The hedging program lessened the impacts of declining prices in 2016 but was more pronounced in 2017 as wholesale prices remained low. The favorable spring runoff in 2017 increased overall volume of wholesale sales, but the favorable financial impacts were lessened as the increased wholesale supply lowered market prices.

	2017	2016	2015
Retail sales	$ 207,378,148	$ 194,863,130	$ 191,473,612
Retail volume	2,454,901	2,288,056	2,305,020
Average price per MWh	$ 84.48	$ 85.17	$ 83.07
Wholesale sales	$ 39,249,845	$ 42,799,209	$ 38,761,472
Wholesale volume	1,997,333	1,875,668	1,687,954
Average price per MWh	$ 19.65	$ 22.82	$ 22.96

Operating Expense

Electric System operating expenses include purchased power and wheeling expense. Prices for BPA and contracted resources are set by their respective contracts, which may escalate over time. Market purchases are made at times when resources aren't adequate for customer load or to support the EWEB hedging program, and are subject to price variability to the extent those sales are not fully hedged. Purchased power increased compared to 2016 and 2015 as a result of escalations in contracted resources. Wheeling increased in 2017 due to a transmission rate increase by BPA as well as additional purchases of transmission for a wind generation project.

Other than purchased power and wheeling expenses, overall operating expenses were less than 2016 and comparable to 2015. Transmission and distribution expense was higher in 2016 due to restoration efforts following a severe ice storm in December 2016. Depreciation decreased primarily due to the sale of the Smith Creek project in 2016 as well as several significant information technology assets becoming fully depreciated in 2017.

Electric System - Operating Expense

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Purchased Power	$ 118,166	$ 117,194	$ 108,239	$ 972	$ 9,927
System control	4,918	5,658	5,903	(740)	(985)
Wheeling	13,915	12,273	12,904	1,642	1,011
Steam and hydraulic generation	11,363	11,486	11,631	(123)	(268)
Transmission and distribution	21,737	24,546	22,148	(2,809)	(411)
Customer accounting	8,412	8,027	8,152	385	260
Conservation expenses	4,061	4,720	3,885	(659)	176
Administrative and general	22,828	21,865	21,018	963	1,810
Depreciation and utility plant	22,223	23,987	23,538	(1,764)	(1,315)
Operating expense	$ 227,623	$ 229,756	$ 217,418	$ (2,133)	$ 10,205

Other Non-operating Revenue, Expense, and Capital Contributions

For the Electric System, non-operating revenues are primarily miscellaneous revenues from sources unrelated to core business functions, including interest earnings, gains from disposal of assets and grant revenue. Non-operating revenue increased in 2016 due to a $4.8 million gain related to the sale of the Smith Creek hydro-electric generation plant. Non-operating revenue remained high in 2017 due to approximately $3 million interest payment from the Water System and $3.5 million in FEMA grant revenue. Investment earnings also increased compared to prior years as interest rates have risen over the past year and the investment portfolio is comprised of fixed income securities maturing in the near-term.

Non-operating expenses, consist primarily of interest expense on debt which decreased in 2016 and 2017 due to repayment of debt (see Debt Activity). In 2017, non-operating expenses increased due to a $15.7 million loss related to the in-substance defeasance of the 2001A bonds.

Capital contributions represent amounts customers contribute to construct assets that become part of plant in service for the Electric Utility. Capital contributions increased in 2016 due to significant work to upgrade or relocate EWEB lines and services in advance of construction of the Lane Transit District EMX Rapid Transit system.

Electric System - Non Operating Revenue and Expense

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Non-operating revenue	$ 12,572	$ 12,843	$ 6,461	$ (271)	$ 6,111
Non-operating expense	(25,587)	(11,453)	(12,294)	14,134	13,293
Capital contributions	5,287	7,595	4,006	(2,308)	1,281
Total	$ (7,728)	$ 8,985	$ (1,827)	$ (16,713)	$ (5,901)

Total Assets and Deferred Outflows of Resources

Total assets for the Electric System include utility plant net of depreciation, current assets representing cash and investments, accounts receivable, materials inventory, pre-paid expenses, long term investments, and non-current assets such as jointly-owned companies accounted for under the equity method for investments.

Current assets are influenced by cash balances, investments having maturities less than one year, and changes in balances of customer and other receivables at year end. Current assets decreased in 2016 due to use of cash to defease debt. In 2017, current assets increased due to a $19 million increase in net position as well as the net impact of the in-substance defeasance of the 2001A bonds and issuance of new debt for the Carmen-Smith Project.

Non-current assets decreased in 2017 due in part to the Water System's repayment of $8 million intersystem debt to the Electric System. The amount of investments held at year-end having maturities greater than one year also contributes to the classified amount of non-current assets each year.

Deferred outflows of resources represent transactions occurring in future periods and are not classified as assets. The changes in deferred outflows of resources stems from changes in actuarial assumptions and differences between projected and actual earnings on investments related to EWEB's Public Employees Retirement System (PERS) net pension liability.

Electric System - Assets and Deferred Outflows

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Net utility plant	$ 353,878	$ 350,366	$ 365,398	$ 3,512	$ (11,520)
Current assets	190,722	153,170	168,727	37,552	21,995
Non-current assets	155,574	176,235	165,513	(20,661)	(9,939)
Deferred outflows of resources	33,411	57,024	8,937	(23,613)	24,474
Total assets and deferred outflows of resources	$ 733,585	$ 736,795	$ 708,575	$ (3,210)	$ 25,010

Capital Asset Activity

Capital projects for the Electric System are categorized by "type", representing the strategic category of the work in the capital plan. Type 1 projects are ongoing renewal and replacements typically funded through customer rates. Significant Type 1 projects for 2017 included capital replacements of the transmission and distribution system, generation facilities, information technology projects, buildings and land, and substations. Work for installation of customer infrastructure, most of which is reimbursed by contributions in aid of construction, is also considered Type 1.

Type 2 Projects are rehabilitation and expansion projects greater than $1 million and spanning multiple years. They may be funded by either rates or issuance of bonds. In 2017, Type 2 projects included constructing the new Holden Creek substation, upgrades to the Downtown Network, and Advanced Metering Infrastructure (AMI).

Type 3 projects are strategic projects generally funded by the issuance of bonds. The Carmen Smith relicensing project is the primary Type 3 project.

The primary driver for the decrease in plant in service from 2015 to 2016, is the sale of the Smith Creek Hydroelectric Project. The sale also reduced the balance of accumulated depreciation. The difference between the net book value and the cash sales price resulted in a $4.8 million gain.

The balance of construction work in progress has grown since 2015 as work continues on multi-year projects.

Electric System - Capital Assets

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Plant in service	$ 760,426	$ 741,377	$ 752,863	$ 19,049	$ 7,563
Accumulated depreciation	(422,005)	(403,328)	(393,797)	18,677	28,208
Property for future use	943	827	827	116	116
Construction work in progress	14,513	11,489	5,505	3,024	9,008
Net utility plant	$ 353,877	$ 350,365	$ 365,398	$ 3,512	$ (11,521)

Ongoing capital improvements by type include:

Electric System - Capital projects

	2017	2016	2015
Type 1			
	Buildings & Land	Buildings & Land	Buildings & Land
	Transmssion & Distribution	Transmssion & Distribution	Transmssion & Distribution
	Transporation Equipment	Transporation Equipment	Transporation Equipment
	Generation	Generation	Generation
	Information Technology	Information Technology	Information Technology
	Substations & Telecom	Substations & Telecom	Substations & Telecom
Type 2			
	AMI	AMI	
	Downtown Network	Downtown Network	Downtown Network
	Holden Creek Substation	Holden Creek Substation	Leaburg Roll Gate Rebuild
	Leaburg Roll Gate Rebuild	Leaburg Roll Gate Rebuild	Lane Transit District EmX Project
	Lane Transit District EmX Project	Lane Transit District EmX Project	Information Technology - WAM
		Information Technology - WAM	
Type 3			
	Carmen Smith License Implementation	Carmen Smith License Implementation	Carmen Smith License Implementation
			Roosevelt Operations Center

More detailed information about plant activity is available in Note 3 – Utility Plant, in the note disclosures to the financial statements.

Debt Activity

The Electric System issues revenue bonds or notes payable to fund certain capital projects. During 2017, funds were placed in escrow to defease, in substance, the System's 2001A bonds: $29.7 million in bonds which will continue to mature through year 2027. The System made the advance payment in order to allow its amended and restated master bond resolution to take effect. The new resolution significantly modernized the terms of the preceding resolution from 1986. Funds used for that defeasance were replaced with $33.8 million in bonds, which will be used for relicensing, design and construction of the Carmen-Smith Hydroelectric Project and for certain other projects within the System's capital improvement plan.

During 2016, the Board defeased $23.8 million in bond principal, using cash reserves and proceeds from the sale of the Smith Creek Project. Also, in September, the Board refunded bonds in the amount of $126.1 million. No additional debt was issued in 2016.

During 2016, Moody's reviewed and upgraded their rating for the Electric System's bonds from Aa3 to Aa2, and Fitch Ratings reviewed and upgraded their Electric System bond rating from A- to AA-, with a stable outlook. Electric system bonds are rated AA- by Standard and Poor's Ratings Services.

A note for financing costs for the Harvest Wind Project matured in May of 2015, and the entire $28.8 million balance was retired. Retirement of the Harvest Wind note, defeasance and refunding of existing debt, particularly during 2016 and 2015, have resulted in a significant decrease in total outstanding debt.

Electric System - Debt Activity

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Total outstanding debt	$ 219,934	$ 211,444	$ 246,376	$ 8,490	$ (26,442)

More detailed information about debt activity can be found in the note disclosure to the financial statements, Note 12 – Long-term Debt, and in the unaudited supplementary schedules following the note disclosures.

Liabilities and Deferred Inflows of Resources

Beyond the changes in debt mentioned above, trends in total liabilities and deferred inflows of resources for the Electric System were influenced by changes to the net pension liability, and deferral of the non-cash portion of pension expense. The Electric System recognized a net pension liability of $69 million in 2017, $87 million in 2016, and $37 million in 2015.

The increase in deferred inflows of resources from 2016 is due in part to the recording of employer specific changes in the proportionate share of the PERS system net pension liability as determined from the latest actuarial valuation. Also, the accumulated increase in fair value of hedging derivatives decreased during 2017. In addition, 2015 included a deferred inflow of resources relating to an inventory adjustment, for which the expense was recognized in 2016.

Current liabilities are primarily accounts payable, accrued payroll, and the current portion of long-term debt. Decreases to current liabilities compared to 2016 can be traced to a storm event in mid-December 2016. Significant contracted labor and mutual aid was necessary to restore power to EWEB's customers and reimbursement of expenses was pending at year end.

Electric System - Liabilities and Deferred Inflows					
(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Current liabilities	$ 36,479	$ 45,080	$ 41,929	$ (8,601)	$ (5,450)
Total liabilities	319,016	342,180	322,445	(23,164)	(3,429)
Deferred inflows of resources	7,856	7,294	13,732	562	(5,876)
Total Liabilities and deferred inflows of resources	$ 326,872	$ 349,474	$ 336,177	$ (22,602)	$ (9,305)

Net Position

The net investment in capital assets component of net position, which reflects the value of capital assets net of the debt incurred to acquire those assets has increased each year since 2015. Capital assets have been added each year while corresponding debt levels associated to capital improvements have been reduced year-over-year.

Restricted net position is subject to external legal restrictions on its use and is primarily representative of reserves for payment of debt service, customer donations, and amounts deposited in escrow accounts relating to the Harvest Wind Project. The reduction in restricted net position in 2017 is due to changes in the timing of payments for debt service accounts.

Unrestricted net position represents the accumulation of net assets that are not capital assets, or subject to external restrictions on their use. Unrestricted net position includes, but does not solely represent unrestricted cash position, as it incorporates the effects of non-cash transactions.

Overall net position has increased by approximately 5% compared to 2016, and 9% compared to 2015.

Electric System - Net Position					
(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Net investment in capital assets	$ 195,359	$ 178,261	$ 169,833	$ 17,098	$ 25,526
Restricted	6,367	13,283	17,528	(6,916)	(11,161)
Unrestricted	204,889	195,777	185,036	9,112	19,853
Total net position	$ 406,615	$ 387,321	$ 372,397	$ 19,294	$ 34,218

Reserves and Investment Activity

The Board of Commissioners has established Electric System designated reserve accounts for specific purposes including funding routine capital activity, significant one-time expenses, and to protect customers from the effects of large fluctuations in power prices, generation volume and counterparty risk. The Board has authority to re-evaluate and redirect designated and unrestricted reserves based on current priorities.

During 2017, the most significant changes to designated reserves were a result of strategic decision making by the Board. The Board approved the use of $24.2 million in designated funds to defease debt. Additional deposits to designated funds were approved by the Board, including a deposit to the Pension and Medical reserve, which is accumulated with the intent to pay down the Electric System Oregon PERS or Other Post-employment liabilities.

The Electric System also maintains restricted reserves for purposes including payment of principal and interest on debt, and proceeds from bond issuance restricted for use on capital projects.

Working cash and short-term investments are not held in reserve and are available for the day-to-day operations of the utility. They are classified as unrestricted.

All Electric System working cash and reserves are held in bank accounts, the Local Government Investment Pool, or in high quality securities. Investment strategy focuses on preserving principal, liquidity of funds and lastly on investment returns.

Water System

The source of supply for the Water System is the McKenzie River, with its headwaters in the Cascade Range east of Eugene. Intake and purification of water is performed at the Hayden Bridge Water Filtration Plant. In addition to the filtration plant, the Water System owns and operates 23 reservoirs, 27 pump stations, and approximately 800 miles of transmission and distribution mains. The Water System provides water service to 53,000 residential, commercial, and industrial customers within the EWEB service territory, and also supplies wholesale water to the River Road and Santa Clara water districts outside Eugene. In addition, EWEB has surplus water contracts with the City of Veneta and the Willamette Water Company.

Net Operating Revenue

Water net operating revenue decreased by 2% compared to 2016, and decreased by 10% compared to 2015.

Water System - Net Operating Revenue

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Operating revenue	$ 39,565	$ 38,958	$ 37,521	$ 607	$ 2,044
Operating expense	(25,017)	(24,067)	(21,296)	950	3,721
Net operating revenue	$ 14,548	$ 14,891	$ 16,225	$ (343)	$ (1,677)

Operating Revenue

Consumption of water varies depending on the season and the weather pattern of a particular year. Peak consumption is generally in the summer months, but can begin sooner in warmer years. Consumption has remained stable for the past three years. Water rates were restructured to recover more fixed costs in the monthly basic charge starting in 2013.

The Water System revenue increase includes the effect of a series of rate changes intended to accumulate reserves to partially fund the Alternate Water Sources project. The purpose of the project is to ensure customers have access to potable water in the event the current source or distribution system is compromised. To avoid substantial price increases for this capital work, EWEB adopted a rate smoothing strategy over the ten-year financial plan.

Residential customers make up 90% of the customer base of the Water System, and approximately 60% of retail load. Similar to the Electric system, residential consumption is more responsive to weather conditions than commercial and industrial. Water sales revenue for retail customers has increased by 1.7% compared to 2016, and by 4.9% compared to 2015.

Recent residential price adjustments have been as follows:

2017	no change
2016 (effective February 2016)	3.6% increase
2015 (effective February 2015)	5.2% increase

Commercial and industrial sales make up 10% of the Water System's customer base, and approximately 40% of retail sales. Commercial and industrial sales have been consistent and reflect relevant local economic activity.

Water System - Sales to Customers

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Residential	$ 20,982	$ 20,758	$ 20,150	$ 224	$ 832
Commercial and industrial	14,713	14,332	13,878	381	835
	$ 35,695	$ 35,090	$ 34,028	$ 605	$ 1,667

Water System - Sales to Custmers Kgal

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Residential	3,872	3,926	4,042	(54)	(170)
Commercial and industrial	3,473	3,531	3,528	(58)	(55)
	7,345	7,457	7,570	(112)	(225)

Wholesale sales include sales to River Road and Santa Clara Water Districts, the City of Veneta, and the Willamette Water Company.

	2017	2016	2015
Retail sales	$ 35,695,436	$ 35,089,542	$ 34,029,012
Retail volume	7,345,422	7,456,182	7,570,612
Average price per Kgal	$ 4.86	$ 4.71	$ 4.49
Wholesale sales	$ 2,186,021	$ 2,178,764	$ 2,130,001
Wholesale volume	714,566	714,254	745,187
Average price per Kgal	$ 3.06	$ 3.05	$ 2.86

Operating Expense

The Water System pumps and purifies all water sold and does not have wholesale purchase expense. The largest production expenses are purification and transmission and distribution of water. Other significant expenses are administrative and general, and depreciation. Water operating expenses have increased compared to prior years, in part, as a result of a shift in work from capital related projects to operations and maintenance related activities. Similar to the electric utility, depreciation expense has risen due to the recent addition of plant assets with shorter depreciable lives.

Total operating expenses were:

Water System - Operating Expense					
(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Transmission and distribution	$ 6,280	$ 6,200	$ 5,172	$ 80	$ 1,108
Source of supply, pumping and purification	5,981	5,744	6,035	237	(54)
Customer accounting	1,670	1,494	993	176	677
Conservation expenses	359	250	180	109	179
Administrative and general	4,557	4,255	3,189	302	1,368
Depreciation and utility plant	6,170	6,124	5,727	46	443
Operating expense	$ 25,017	$ 24,067	$ 21,296	$ 950	$ 3,721

Other Non-operating Revenue, Expense, Capital Contributions, and System Development Charges

Non-operating revenue of the Water System consists primarily of miscellaneous revenue not associated with core business activities, as well as interest and investment revenue. Non-operating revenue has increased compared to 2016 and 2015. Investment earnings increased compared to prior years as interest rates have risen, and the Water System has higher cash balances from the investment of the 2016 bond proceeds.

Non-operating expense is primarily interest expense for long-term debt and capital leases. During 2017, the Water System transferred $11 million to the Electric Utility as payment on intercompany debt. Interest expense recognized from this transaction drove an increase in non-operating expense. In 2016, EWEB issued $16 million of new debt in conjunction with refinancing $29 million worth of bond principal, which reduced previously existing debt service requirements.

Capital contributions are related to customer work to extend or relocate water mains and services. In 2017, activity included the contributions from several completed subdivisions. The Water System experienced a higher amount of capital contributions in 2015 compared to 2016 and 2017. In 2015 construction included upgrades and relocation of mains and services as part of the Lane Transit District Emerald Express (EmX) project and an increase in assets constructed by contractors becoming a part of the Water System. The Water System's work on the LTD EMX project tapered off in 2016 as work neared completion.

Water System - Non Operating Revenue and Expense

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Non-operating revenue	$ 590	$ 516	$ 207	$ 74	$ 383
Non-operating expense	(5,941)	(3,470)	(3,364)	2,471	2,577
Capital contributions	3,130	2,790	6,874	340	(3,744)
Total	$ (2,221)	$ (164)	$ 3,717	$ (2,057)	$ (5,938)

Total Assets and Deferred Outflows of Resources

Total assets for the Water System include utility plant, net of depreciation, current assets representing cash and short-term investments, accounts receivable, materials inventory, and pre-paid expenses, as well as non-current assets such as long-term investments.

Recent price increases associated with EWEB's adoption of a smoothing strategy for the Alternate Water Sources project costs have resulted in the accumulation of a higher level of working cash and establishment of reserves. In 2016, the Water System received $16 million in new bond proceeds and placed it in a restricted reserve to fund capital projects.

Non-current assets have increased since 2016 and 2015. Amounts classified as preliminary investigations increased in 2017 due to the deferral of the Willamette River treatment plant. Other assets related to pensions also increased in 2017. The increase in 2016 stemmed from long-term investment of bond proceeds.

Deferred outflows of resources represents transactions occurring in future periods and are not classified as assets. During 2017, the decrease in deferred outflows of resources is primarily due to changes in actuarial assumptions and differences between projected and actual earnings on investments related to the Board's Public Employees Retirement System (PERS) net pension liability.

Water System - Assets and Deferred Outflows

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Net utility plant	$ 165,424	$ 160,506	$ 154,067	$ 4,918	$ 11,357
Current assets	42,557	45,562	30,908	(3,005)	11,649
Non-current assets	18,931	17,837	9,078	1,094	9,853
Deferred outflows of resources	6,870	11,562	2,237	(4,692)	4,633
Total assets and deferred outflows of resources	$ 233,782	$ 235,467	$ 196,290	$ (1,685)	$ 37,492

Capital Asset Activity

Like the Electric System, capital projects for the Water System are categorized by "type," with the type representing category of the work in the capital plan. Type 1 projects are ongoing capital renewal and replacements funded primarily by customer rates. Significant Type 1 projects for 2017 included ongoing capital replacements of the water pump stations and distribution system. Installation of customer infrastructure, most of which is reimbursed by contributions in aid of construction, is also considered Type 1.

Type 2 Projects are rehabilitation and expansion projects over $1 million and spanning multiple years. They may be funded by either rates or issuance of bonds. In 2017, Type 2 projects included Advanced Metering Infrastructure (AMI) and upgrades at the Hayden Bridge water filtration plant.

Type 3 projects are strategic projects generally funded by the issuance of bonds. The Alternate Water Sources project is currently the only Type 3 project for the Water system. As part of this project, the Water System purchased land along the Willamette River in 2017 to use as a site for a future water treatment plant

Water System - Capital Assets

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Plant in service	$ 276,661	$ 267,602	$ 254,513	$ 9,059	$ 22,148
Accumulated depreciation	(117,297)	(111,344)	(105,624)	5,953	11,673
Property for future use	2,397	1,184	1,138	1,213	1,259
Construction work in progress	3,663	3,063	4,041	600	(378)
Net utility plant	$ 165,424	$ 160,505	$ 154,068	$ 4,919	$ 11,356

Ongoing capital improvements by type included:

Water System - Capital projects

	2017	2016	2015
Type 1			
	Water intake and filtration plant	Water Intake and Filtration Plant	Water Intake and Filtration Plant
	Water Mains, services and meters	Water Mains, services and meters	Water Mains, services and meters
	Reservoirs	Reservoirs	Reservoirs
	Transporation Equipment	Transporation Equipment	Transporation Equipment
	Pump stations	Pump stations	Buildings & Land
	Information Technology	Information Technology	Information Technology
Type 2			
	AMI	AMI	Information Technology
	Distribution system	Distribution system	Distribution system
	Filtration Plant Upgrades	Lane Transit District EmX Project	Lane Transit District EmX Project
		Filtration Plant Upgrades	
Type 3			
	Alternate Water Sources	Alternate Water Sources	Alternate Water Sources

More detailed information about plant activity is available in Note 3 – Utility Plant, in the note disclosures to the financial statements.

Debt Activity

During 2017, the Water System transferred $11 million to the Electric System for its shared costs of retirement benefits and construction of the Roosevelt Operations Center, both financed by the Electric System. This payment assisted the Electric System in defeasing its 2001A bonds, which were associated with the intersystem receivable and payable and described as a retirement obligation. The Water System paid off that portion of the intersystem receivables and payables, sharing in the savings from the defeasance. The balance of the payment was applied to the intersystem Roosevelt Operations Center lease.

More detailed information about debt activity can be found in the note disclosure to the financial statements, Note 12 – Long-term Debt, the unaudited supplementary schedules for bonds, which follow the note disclosures, and Note 13 – Intersystem receivables and payables.

The table below shows outstanding balances for bonds. Significant activity occurred in 2016, when the Board refunded existing debt of the Water System to take advantage of market conditions and the low interest rate environment for municipal securities. As part of the same issuance, $16 million in new debt was issued to fund capital projects. Water System bonds are rated Aa2 by Moody's Investors Service, AA by Standard and Poor's Rating Services, and AA+ by Fitch Ratings.

Water System - Debt Activity

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Total outstanding debt	$ 58,903	$ 61,113	$ 45,846	$ (2,210)	$ 13,057

Liabilities and Deferred Inflows of Resources

Beyond the changes in debt mentioned above, trends in total liabilities and deferred inflows of resources for the Water System were influenced by changes to the net pension liability, as well as the deferral of non-cash portions of pension expense. Also, 2015 included a deferred inflow of resources relating to an inventory adjustment, which was recognized in 2016.

Current liabilities are primarily accounts payable, accrued payroll, and the current portion of long-term debt. Current liability balances have decreased compared to 2016 and 2015 primarily due to intersystem payable decrease.

Water System - Liabilities and Deferred Inflows

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Current liabilities	$ 5,503	$ 5,974	$ 6,029	$ (471)	$ (526)
Total liabilities	86,468	101,185	75,798	(14,717)	10,670
Deferred inflows of resources	1,716	1,009	1,947	707	(231)
Total Liabilities and deferred inflows of resources	$ 88,184	$ 102,194	$ 77,745	$ (14,010)	$ 10,439

Net Position

The net investment in capital assets component of net position, which reflects the value of capital assets net of the debt incurred to acquire those assets has increased each year since 2015. Capital assets have been added each year.

Restricted net position is subject to external legal restrictions on its use and is primarily representative of reserves for payment of debt service and deposits of System Development Charges (SDC) to a restricted reserve for work not yet completed. Restricted net position decreased in 2017 primarily due to changes in the timing of payments for debt service accounts. In 2016, restricted net position increased primarily due to higher SDC reserves.

Unrestricted net position represents the accumulation of assets that are not capital assets, or subject to external restrictions on their use. Unrestricted net position includes, but does not solely represent unrestricted cash position, as it incorporates the effects of non-cash transactions. The Water System's unrestricted net position has increased 8% compared to 2016 and 39% compared to 2015, reflecting improvements in net income and unrestricted cash position following principles of conservative revenue budgeting, and the Board approved rate smoothing strategy designed to improve fixed cost recovery.

Overall net position has increased by approximately 9% compared to 2016, and 23% compared to 2015.

Water System - Net Position

(in thousands)	2017	2016	2015	Increase (Decrease) 2017/2016	Increase (Decrease) 2017/2015
Net investment in capital assets	$ 108,380	$ 97,536	$ 90,478	$ 10,844	$ 17,902
Restricted	6,690	7,369	6,142	(679)	548
Unrestricted	30,529	28,367	21,924	2,162	8,605
Total net position	$ 145,599	$ 133,272	$ 118,544	$ 12,327	$ 27,055

Reserves and Investment Activity

The Board of Commissioners has established Water System designated reserves for specific purposes including the funding of routine capital activity and significant one-time expenses. In addition, designated reserves accumulate funding for pension and post-retirement benefits. Designated funds are considered unrestricted but the Board has authority to re-evaluate and redirect reserves based on current priorities. During 2017, the most significant reserve activity was the use of funds to pay down intersystem debt, as well as continuing additions to the Alternate Water Sources project reserve. The Water System also had sufficient funds to increase the balance of the Pension and Medical reserve by $2.5 million to proportionately align with the Electric System's Pension and Medical reserve.

The Water System maintains restricted reserves for purposes including payment of principal and interest on debt. Restricted reserves also include proceeds from bond issuance restricted for use on capital projects and funds collected through System Development Charges.

Working cash and short-term investments are not held in reserve and are available for the day-to-day operations of the utility. They are considered unrestricted.

All Water System working cash and reserves are held in bank accounts, the Local Government Investment Pool, or in high quality securities. Investment strategy focuses on preserving principal, liquidity of funds and lastly on investment returns.

STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
ASSETS						
Capital assets						
Utility plant in service	$ 760,426,397	$ 741,377,401	$ 276,661,368	$ 267,601,807	$ 1,037,087,765	$ 1,008,979,208
Less accumulated depreciation	422,004,832	403,327,971	117,297,391	111,343,682	539,302,223	514,671,653
Net utility plant in service	338,421,565	338,049,430	159,363,977	156,258,125	497,785,542	494,307,555
Property held for future use	943,148	827,449	2,396,812	1,184,434	3,339,960	2,011,883
Construction work in progress	14,512,880	11,489,223	3,663,042	3,063,265	18,175,922	14,552,488
Net utility plant	353,877,593	350,366,102	165,423,831	160,505,824	519,301,424	510,871,926
Current assets						
Cash and cash equivalents	29,977,821	13,322,730	9,472,000	4,740,905	39,449,821	18,063,635
Short-term investments	8,434,200	12,250,258	783,532	845,369	9,217,732	13,095,627
Restricted cash and investments	40,131,600	27,424,546	11,814,440	19,562,392	51,946,040	46,986,938
Designated cash and investments	60,579,102	52,930,042	14,346,678	14,959,703	74,925,780	67,889,745
Receivables, less allowances	40,618,799	35,212,662	3,991,987	3,298,133	44,610,786	38,510,795
Due from Water System	322,585	870,656	-	-	-	-
Materials and supplies	3,940,922	3,675,617	889,713	900,944	4,830,635	4,576,561
Prepaids	6,218,429	6,901,844	1,258,802	1,254,709	7,477,231	8,156,553
Option premiums short-term	498,960	581,400	-	-	498,960	581,400
Total current assets	190,722,418	153,169,755	42,557,152	45,562,155	232,956,985	197,861,254
Non-current assets						
Investments - designated	29,808,662	50,610,475	7,123,157	12,286,276	36,931,819	62,896,751
Investments - unrestricted	5,602,780	8,588,049	355,100	1,269,344	5,957,880	9,857,393
Investments - restricted	15,742,137	-	4,584,541	-	20,326,678	-
Receivables, conservation and other	3,426,356	3,453,706	121,595	157,206	3,547,951	3,610,912
Due from Water System	8,791,647	16,612,000	-	-	-	-
Investment in WGA	3,740,726	3,509,389	-	-	3,740,726	3,509,389
Investment in Harvest Wind	22,344,000	23,730,662	-	-	22,344,000	23,730,662
Preliminary investigations	32,522,024	31,940,789	1,302,816	-	33,824,840	31,940,789
Other assets	33,497,085	37,789,869	5,443,639	4,124,167	38,940,724	41,914,036
Total non-current assets	155,475,417	176,234,939	18,930,848	17,836,993	165,614,618	177,459,932
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows of resources	33,411,044	57,024,020	6,869,784	11,561,575	40,280,828	68,585,595
Total assets and deferred outflows of resources	$ 733,486,472	$ 736,794,816	$ 233,781,615	$ 235,466,547	$ 958,153,855	$ 954,778,707

Note: Inter-system receivables and payables are eliminated in the total systems columns.

See accompanying notes

STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
LIABILITIES						
Current liabilities						
Payables	$ 21,071,300	$ 26,292,077	$ 1,112,469	$ 1,201,768	$ 22,183,769	$ 27,493,845
Accrued payroll and benefits	3,881,194	4,754,554	957,143	1,094,981	4,838,337	5,849,535
Due to Electric System	-	-	322,585	870,656	-	-
Payable from restricted assets						
Accrued interest on long-term debt	3,156,540	2,868,599	950,937	966,271	4,107,477	3,834,870
Long-term debt due within one year	8,370,000	11,165,000	2,160,000	1,840,000	10,530,000	13,005,000
Total current liabilities	36,479,034	45,080,230	5,503,134	5,973,676	41,659,583	50,183,250
Non-current liabilities						
Long-term debt	211,563,892	200,279,317	56,743,285	59,273,233	268,307,177	259,552,550
Due to Electric System	-	-	8,791,647	16,612,000	-	-
Net pension liability	69,340,004	86,824,424	15,220,977	19,059,020	84,560,981	105,883,444
Other liabilities	1,633,103	9,996,306	208,506	267,484	1,841,609	10,263,790
Total liabilities	319,016,033	342,180,277	86,467,549	101,185,413	396,369,350	425,883,034
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows of resources	7,855,797	7,293,921	1,715,540	1,009,432	9,571,337	8,303,353
NET POSITION						
Net investment in capital assets	195,358,608	178,261,000	108,379,788	97,536,117	303,738,396	275,797,117
Restricted	6,366,747	13,282,845	6,690,118	7,368,976	13,056,865	20,651,821
Unrestricted	204,889,287	195,776,773	30,528,620	28,366,609	235,417,907	224,143,382
Total net position	406,614,642	387,320,618	145,598,526	133,271,702	552,213,168	520,592,320
Total liabilities, deferred inflows of resources and net position	$ 733,486,472	$ 736,794,816	$ 233,781,615	$ 235,466,547	$ 958,153,855	$ 954,778,707

Note: Inter-system receivables and payables are eliminated in the total systems columns.

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
Residential	$ 104,263,241	$ 94,669,774	$ 20,982,315	$ 20,757,948	$ 125,245,556	$ 115,427,722
Commercial and industrial	103,114,907	100,193,356	14,713,121	14,331,595	117,828,028	114,524,951
Sales for resale and other	47,267,135	50,386,851	3,869,409	3,868,120	51,136,544	54,254,971
Operating revenues	254,645,283	245,249,981	39,564,845	38,957,663	294,210,128	284,207,644
Purchased power	118,166,351	117,194,256	-	-	118,166,351	117,194,256
System control	4,918,381	5,657,580	-	-	4,918,381	5,657,580
Wheeling	13,914,667	12,273,110	-	-	13,914,667	12,273,110
Steam and hydraulic generation	11,362,860	11,486,118	-	-	11,362,860	11,486,118
Transmission and distribution	21,736,501	24,545,553	6,279,976	6,200,025	28,016,477	30,745,578
Source of supply, pumping and purification	-	-	5,980,976	5,744,599	5,980,976	5,744,599
Customer accounting	8,412,193	8,027,392	1,669,713	1,493,979	10,081,906	9,521,371
Conservation expenses	4,060,519	4,720,681	359,149	250,264	4,419,668	4,970,945
Administrative and general	22,828,322	21,864,641	4,557,360	4,254,641	27,385,682	26,119,282
Depreciation on utility plant	22,222,948	23,986,786	6,170,058	6,123,925	28,393,006	30,110,711
Operating expenses	227,622,742	229,756,117	25,017,232	24,067,433	252,639,974	253,823,550
Net operating income	27,022,541	15,493,864	14,547,613	14,890,230	41,570,154	30,384,094
Investment earnings	1,716,025	2,864,903	456,911	252,943	2,172,936	3,117,846
Interest earnings, Water	3,516,955	982,621	-	-	-	-
Other revenue	7,338,979	8,995,438	133,426	263,479	7,472,405	9,258,917
Non-operating revenues	12,571,959	12,842,962	590,337	516,422	9,645,341	12,376,763

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

See accompanying notes.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
Other revenue deductions	$ 2,945,224	$ 701,774	$ 255,196	$ 203,406	$ 3,200,420	$ 905,180
Loss on debt defeasance	15,739,723	1,452,551	-	-	15,739,723	1,452,551
Interest expense and related amortization	6,902,350	9,298,262	2,168,955	2,283,535	9,071,305	11,581,797
Interest expense, Electric	-	-	3,516,955	982,621	-	-
Non-operating expenses	25,587,297	11,452,587	5,941,106	3,469,562	28,011,448	13,939,528
Income before capital contributions and special items	14,007,203	16,884,239	9,196,844	11,937,090	23,204,047	28,821,329
Contributions in aid of construction	3,766,445	6,655,664	860,727	1,160,986	4,627,172	7,816,650
Contributed plant assets	1,520,376	939,115	1,154,689	283,591	2,675,065	1,222,706
System development charges	-	-	1,114,564	1,345,584	1,114,564	1,345,584
Capital contributions	5,286,821	7,594,779	3,129,980	2,790,161	8,416,801	10,384,940
Special item - Carmen Smith	-	9,556,180	-	-	-	9,556,180
Change in net position	19,294,024	14,922,838	12,326,824	14,727,251	31,620,848	29,650,089
Total net position at beginning of year	387,320,618	372,397,780	133,271,702	118,544,451	520,592,320	490,942,231
Total net position at end of year	$ 406,614,642	$ 387,320,618	$ 145,598,526	$ 133,271,702	$ 552,213,168	$ 520,592,320

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

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 264,869,441	$ 256,371,220	$ 38,879,643	$ 39,119,053	$ 303,749,084	$ 295,490,273
Other receipts	4,240,869	929,315	357,885	165,083	4,598,754	1,094,398
Power purchases	(122,287,513)	(108,546,709)	-	-	(122,287,513)	(108,546,709)
Payments to employees/employer paid benefits	(49,057,337)	(47,457,800)	(13,092,367)	(12,638,847)	(62,149,704)	(60,096,647)
Payments to suppliers	(37,777,463)	(43,285,421)	(5,838,984)	(5,575,223)	(43,616,447)	(48,860,644)
Contributions in lieu of taxes	(13,997,673)	(13,082,608)	-	-	(13,997,673)	(13,082,608)
Net cash from operating activities	45,990,324	44,927,997	20,306,177	21,070,066	66,296,501	65,998,063
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investment securities	(97,525,232)	(100,250,993)	(12,935,342)	(38,138,565)	(110,460,574)	(138,389,558)
Proceeds from sale and maturities of investments	93,152,024	84,344,800	20,677,560	17,174,404	113,829,584	101,519,204
Interest on investments	2,381,327	3,645,661	332,934	375,659	2,714,261	4,021,320
Distributions from equity investments	2,258,958	2,182,000	-	-	2,258,958	2,182,000
Net cash from investing activities	267,077	(10,078,532)	8,075,152	(20,588,502)	8,342,229	(30,667,034)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Note receipts/(payments) to Electric from Water	2,210,949	207,277	(2,210,949)	(207,277)	-	-
Interest receipts/(payments) to Electric from Water	3,685,268	1,013,103	(3,685,268)	(1,013,103)	-	-
Lease receipts/(payments) to Electric from Water	5,989,163	433,231	(5,989,163)	(433,231)	-	-
Payments to defease debt	(36,489,063)	-				
Principal payments	-	(1,745,000)	-	-	-	(1,745,000)
Interest payments	(518,714)	(1,147,712)	-	-	(518,714)	(1,147,712)
Net cash from non-capital financing activities	(25,122,397)	(1,239,101)	(11,885,380)	(1,653,611)	(518,714)	(2,892,712)

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

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal payments	$ (9,175,000)	$ (11,765,000)	$ (1,840,000)	$ (425,000)	$ (11,015,000)	$ (12,190,000)
Proceeds from issuance of bonds	40,004,723	135,708,508	-	45,111,411	40,004,723	180,819,919
Payments to refund debt	-	(141,364,628)	-	(31,042,587)	-	(172,407,215)
Payments to defease debt	-	(26,945,077)	-	-	-	(26,945,077)
Additions to plant and non-utility property, net	(28,874,349)	(26,183,897)	(12,797,272)	(12,607,037)	(41,671,621)	(38,790,934)
Proceeds from disposition of Smith Creek Hydro	-	22,121,277	-	-	-	22,121,277
Interest payments	(6,297,449)	(9,932,105)	(2,319,048)	(1,680,808)	(8,616,497)	(11,612,913)
Additions to preliminary surveys and other	(790,457)	(755,084)	-	-	(790,457)	(755,084)
Capital contributions	5,286,821	7,594,779	3,129,979	2,790,161	8,416,800	10,384,940
Net cash from capital and related financing activities	154,289	(51,521,227)	(13,826,341)	2,146,140	(13,672,052)	(49,375,087)
CHANGE IN CASH AND CASH EQUIVALENTS	21,289,293	(17,910,863)	2,669,608	974,093	60,447,964	(16,936,770)
CASH AND CASH EQUIVALENTS, beginning of year	49,828,402	67,739,265	17,710,412	16,736,319	67,538,814	84,475,584
CASH AND CASH EQUIVALENTS, end of year Including cash and cash equivalents restricted or designated: $41,139,874 and $10,908,020 ($36,505,672 and $12,969,507 in 2016) for Electric and Water, respectively	$ 71,117,695	$ 49,828,402	$ 20,380,020	$ 17,710,412	$ 127,986,778	$ 67,538,814

NON-CASH CAPITAL ACTIVITY:

In 2017, plant assets contributed by developers were $1,520,376 for the electric system, and $1,154,689 for the water system ($939,115 for the electric system, and $283,591 for the water system in 2016)

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

See accompanying notes.

Continued

STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016

	Electric System		Water System		Total System	
	2017	2016	2017	2016	2017	2016
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES						
Net operating income	$ 27,022,541	$ 15,493,864	$ 14,547,613	$ 14,890,230	$ 41,570,154	$ 30,384,094
Adjustments to reconcile net operating income to net cash from operating activities						
Depreciation, including allocated	23,442,486	25,231,889	6,170,058	6,123,925	29,612,544	31,355,814
Other revenue	6,296,132	3,694,342	366,536	271,005	6,662,668	3,965,347
Other revenue deductions	(1,230,843)	(637,302)	(250,000)	(188,748)	(1,480,843)	(826,050)
(Increase) decrease in assets						
Receivables	(5,238,888)	(4,590,636)	(693,854)	55,468	(5,932,742)	(4,535,168)
Materials and supplies	(265,306)	611,281	11,231	110,758	(254,075)	722,039
Prepayments and special deposits	683,415	29,189	(4,094)	85,989	679,321	115,178
Conservation loans, net	(807,300)	1,133,240	-	-	(807,300)	1,133,240
Other assets	3,071,686	2,889,411	-	-	3,071,686	2,889,411
(Increase) decrease in deferred outflows of resources						
Decrease in fair value of hedging derivatives	1,614,800	(1,218,280)	-	-	1,614,800	(1,218,280)
Increase (decrease) in liabilities						
Accounts payable, accrued payroll and benefits	(5,306,374)	6,653,178	158,687	(48,171)	(5,147,687)	6,605,007
Other liabilities	(637,190)	(1,146,617)	-	-	(637,190)	(1,146,617)
Increase (decrease) in deferred inflows of resources	(2,654,835)	(3,215,561)	-	(230,390)	(2,654,835)	(3,445,951)
Net cash from operating activities	$ 45,990,324	$ 44,927,997	$ 20,306,177	$ 21,070,066	$ 66,296,501	$ 65,998,063

See accompanying notes.

Note 1 – Summary of significant accounting policies

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 (GASB) definition of a reporting entity, the Board is considered a primary government and is not a component unit of another entity, nor are there any component units of which the Board is financially accountable. The Board is responsible for the ownership and operation of the Electric and Water Systems, and the basic financial statements include these two Systems.

The Board provides energy and water service to residential, commercial and industrial customers located in a 236 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, and entered into various power purchase agreements.

In addition, the Board has entered into joint ventures, whereby it has taken 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, licensing agreements, river flow levels and weather patterns.

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

Eliminations
Amounts receivable and payable between the Electric and Water Systems and related interest earnings and expenses are eliminated in the Total Systems columns of the financial statements (see Note 13).

Method of Accounting
The Board maintains its accounting records in accordance with accounting principles generally accepted in the United States of America. The Board applies accounting and reporting standards of the GASB, exclusively. The financial statements use a flow of economic resources measurement focus to determine financial position and the change in financial position. The accounting principles used are similar to those applicable to businesses in the private sector and are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Effective January 1, 2017, the Board adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,* GASB Statement No. 80, *Blending Requirements for Certain Component Units*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* and GASB Statement No. 82, *Pension Issues-Amendment of GASB 67, 68 & 73.* The accounting and reporting standards established by these statements did not have any impact during the year of implementation.

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 affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

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 used during construction (i.e. interest). Additions, renewals, and betterments with a minimum cost of $5,000 or greater per item are capitalized. Repairs and minor replacements are recorded as operating expenses. Depreciation is computed using straight-line group rates. When property is retired, the property cost and any removal costs are charged to accumulated depreciation. The estimated useful lives of assets are those used commonly in the utility industry or they are based on the Board's experience with similar assets.

Asset Class	Estimated Depreciable Lives in Years	
	Electric System	Water System
Land	n/a	n/a
Intangible assets	n/a	n/a
Distribution plant	20-50	-
Hydraulic production	15-50	-
Steam production	15-50	-
Other production	15-50	-
Telecommunications	10	-
Transmission plant	25-50	-
General plant	3-50	3-50
Pumping plant	-	15-50
Supply plant	-	20-50
Treatment plant	-	15-50
Transmission & distribution plant	-	15-50

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

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

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

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

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

Preliminary Investigations
At December 31, 2017, the Electric System had $32.5 million ($31.9 million at December 31, 2016) in deferred costs for the preliminary investigation of projects it believes will be viable in the future. Most of the balance was for preconstruction relicensing costs of the Carmen-Smith Project.

The Water System had $1.3 million in deferred costs for preconstruction activity related to the Willamette River water treatment plant.

Regulatory Assets
The Board has deferred inflows of resources and other assets to be charged to future periods matching the reporting periods when the revenues and expenses are included for rate-making purposes.

Regulatory Assets

- **Conservation Assets**
  Conservation assets for the Electric System represent installations of energy saving measures at customer properties. The conservation asset balance is reduced as costs are recovered, which for the most part represent debt service payments included in rates for related borrowing.

- **Unamortized Bond Issue Costs**
  Unamortized bond issue costs represent the remaining expense related to various debt issuances. The asset is amortized over the duration of the related debt and recognition of these costs is included in the rate making process.

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

- **Pension debits**
  Pension debits represent a portion of the change in net pension liability, as defined under GASB Statement No. 68. Regulatory accounting is used to recognize pension expense in accordance with the required employer contribution rates set by the Oregon Public Employees Retirement System.

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

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 deferred outflow of resources on the statement of net position.

Net Position
Net position consists of:

- **Net investment in capital assets**
  Net investment in capital assets is capital assets, net of accumulated depreciation and outstanding balances of any bonds and other borrowings attributable to the acquisition, construction, or improvement of those assets.

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

- **Unrestricted**
  The unrestricted component of net position includes remaining amounts neither "restricted" nor "net investment in capital assets."

Net position was as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Net investment in capital assets	$ 195,358,608	$ 108,379,789	$ 178,261,000	$ 97,536,117
Restricted for:				
Customer care program	973,914	-	756,749	-
Harvest Wind escrow	2,043,333	-	2,064,302	-
System development charges	-	5,294,378	-	4,271,124
Debt service	3,349,500	1,395,740	10,461,794	3,097,852
	6,366,747	6,690,118	13,282,845	7,368,976
Unrestricted	204,889,287	30,528,620	195,776,773	28,366,609
	$ 406,614,642	$ 145,598,527	$ 387,320,618	$ 133,271,702

Operating Revenue and Expense
Operating revenues are recorded on the basis of service delivered while operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenues are derived primarily from the sale and transmission of electricity and from the sale of water. Revenue is recognized when power or water is delivered to and received by the customer. Approximately 10% of 2017 Electric System retail revenues were the result of sales to one industrial customer (10% in 2016). Estimated revenues are accrued for power and water delivered but not yet billed to customers.

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

Receivables 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, 2017 were $623,000 ($869,000 for 2016) for the Electric System and $55,000 ($51,000 for 2016) for the Water System.

Contributions in Lieu of Taxes
In accordance with ORS 225.270, *Use of surplus earnings*, the Electric System makes contributions in lieu of tax (CILT) payments to the City of Eugene at the rate of 6% of retail sales and a fixed component equal to $848,000 for 2017 ($831,000 for 2016). The fixed amount is subject to certain annual inflationary adjustments. The Board makes CILT payments to the City of Springfield at the rate of 3% of retail sales for a customer within the boundaries of the City of Springfield. Total contributions in lieu of taxes for the year ended December 31, 2017 were $14.0 million ($13.2 million for 2016).

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

Note 2 – Power Risk Management

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

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

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

As of December 31, 2017, options classified as hedging derivatives with a fair value of $41,000 were reported as other assets and deferred inflows. Hedging derivatives with a fair value of $499,000 were reported as other liabilities and deferred outflows. Changes in fair value are reported as an increase in other assets or other liabilities and deferred inflows or outflows of resources until the time of settlement. When hedging derivatives settle, revenue or expense is recorded as either purchased power or wholesale sales.

Investment Derivatives
Hedging derivatives found through testing to be ineffective are classified as investment derivatives. At that time, the fair value, including any fair value changes previously deferred on the balance sheet, are recorded as investment revenue and a deferred inflow or outflow. As of December 31, 2017, there were no investment derivatives or related investment revenue. In 2016, investment derivatives with a fair value of $1.3 million were recorded as a deferred outflows of resources and a gain of $1.3 million was recognized in investment revenue. As of December 31, 2017 and 2016, there were no investment derivatives recorded in deferred inflows of resources and investment revenue.

(Note 2 – Power Risk Management, continued)

	Options and Swaps			
	Hedging Derivatives		Investment Derivatives	
	2017	2016	2017	2016
Notional value	$ 498,960	$ 8,575,960	-	$ 3,586,040
Fair value - asset	$ 40,560	$ 2,695,395	-	$ 1,295,200
Fair value - liability	$ 498,960	$ 818,560	-	-
Cash paid	$ 498,960	$ 500,040	-	-
Reference rates	Mid-C index	Mid-C index	-	Mid-C index
Dates entered into	11/16 through 2/17	1/13 through 11/16	-	1/13 through 2/13
Dates of maturity	1/18 through 6/18	1/17 through 6/18	-	4/17 through 11/17

Credit Risk

The Board enters into forward purchase and sale contracts for electricity with other industry participants such as public and investor owned utilities, financial institutions, gas and oil producers, and energy marketers. Through this participation, the utility is exposed to credit risk related to the possibility of non-performance by its counterparties. To limit the risk of counterparty default or non-performance, the Board uses an evaluation process assigning an internal measure of credit worthiness to the Board's counterparties and sets limits to the dollar value of business transacted with counterparties. On a case-by-case basis, the Board may require letters of credit, cash collateral, pre-payment or other forms of credit support to ensure counterparty performance. Other assurances may include accelerated invoicing or pre-payment. In addition, the Board generally establishes netting arrangements with counterparties.

As of December 31, 2017, all derivative instrument assets were with a single counterparty and the aggregate fair value was $41,000. This represents the maximum loss that would be recognized if the counterparty to the derivative instrument assets failed to perform as contracted. The counterparty credit rating is BBB+. This maximum exposure is reduced by $10,000 of liabilities included in a netting arrangement.

Termination Risk

Hedging derivative contracts may be terminated by mutual agreement of the Board and the counterparty, or upon the occurrence of a termination event. Termination events include non-payment, non-delivery, deterioration of creditworthiness, or other material adverse changes. During the years 2017 and 2016, there were no terminations.

Note 3 – Utility plant

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

Electric Utility Plant

	Balance at December 31, 2016	Increases	Decreases	Balance at December 31, 2017
Plant in service not subject to depreciation				
Land	$ 8,643,245	$ -	$ -	$ 8,643,245
Intangible assets	212,124	19,592	-	231,716
Plant in service subject to depreciation				
Steam production	10,283,972	79,516	-	10,363,488
Hydro production	156,443,694	3,682,116	(1,968,000)	158,157,810
Wind production	11,789,767	-	-	11,789,767
Transmission	84,331,514	294,982	(169,523)	84,456,973
Distribution	282,882,584	17,883,685	(3,338,036)	297,428,233
Telecommunications	18,744,679	264,220	-	19,008,899
General plant	154,754,495	1,548,440	(1,007,423)	155,295,512
Completed construction, not yet classified	13,291,327	15,050,754	(13,291,326)	15,050,755
Total utility plant in service	741,377,401	38,823,305	(19,774,308)	760,426,398
Accumulated depreciation	(403,327,971)	(23,442,486)	4,765,626	(422,004,831)
Plant not subject to depreciation:				
Property held for future use	827,449	115,698	-	943,147
Construction work in progress	11,489,223	24,420,777	(21,397,121)	14,512,879
Net utility plant	$ 350,366,102	$ 39,917,294	$ (36,405,803)	$ 353,877,593

	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
Plant in service not subject to depreciation				
Land	$ 10,252,637	$ -	$ (1,609,392)	$ 8,643,245
Intangible assets	4,559,139	24,383	(4,371,398)	212,124
Plant in service subject to depreciation				
Steam production	10,283,972	-	-	10,283,972
Hydro production	171,027,770	6,317,669	(20,901,745)	156,443,694
Wind production	11,789,767	-	-	11,789,767
Transmission	87,272,814	347,618	(3,288,918)	84,331,514
Distribution	273,180,512	11,914,059	(2,211,987)	282,882,584
Telecommunications	18,214,065	561,869	(31,255)	18,744,679
General plant	153,166,690	1,950,531	(362,726)	154,754,495
Completed construction, not yet classified	13,115,884	13,291,326	(13,115,883)	13,291,327
Total utility plant in service	752,863,250	34,407,455	(45,893,304)	741,377,401
Accumulated depreciation	(393,797,390)	(25,231,888)	15,701,307	(403,327,971)
Plant not subject to depreciation:				
Property held for future use	827,449	-	-	827,449
Construction work in progress	5,505,140	23,686,246	(17,702,163)	11,489,223
Net utility plant	$ 365,398,449	$ 32,861,813	$ (47,894,160)	$ 350,366,102

Water Utility Plant

	Balance at December 31, 2016	Increases	Decreases	Balance at December 31, 2017
Plant in service not subject to depreciation				
Land	$ 1,435,733	$ -	$ -	$ 1,435,733
Intangible assets	55,950	2,238	-	58,188
Plant in service subject to depreciation				
Source of supply	24,378,556	32,657	-	24,411,213
Pumping	10,790,245	1,592,753	-	12,382,998
Water treatment	30,562,487	4,762,208	-	35,324,695
Transmission & distribution	154,027,775	9,966,103	(424,754)	163,569,124
General plant	36,360,364	437,798	(39,688)	36,758,474
Completed construction, not yet classified	9,990,697	2,720,942	(9,990,697)	2,720,942
Total utility plant in service	267,601,807	19,514,699	(10,455,139)	276,661,367
Accumulated depreciation	(111,343,682)	(6,469,481)	515,773	(117,297,390)
Plant not subject to depreciation:				
Property held for future use	1,184,434	1,212,378	-	2,396,812
Construction work in progress	3,063,265	18,348,947	(17,749,170)	3,663,042
Net utility plant	$ 160,505,824	$ 32,606,543	$ (27,688,536)	$ 165,423,831

	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
Plant in service not subject to depreciation				
Land	$ 1,435,733	$ -	$ -	$ 1,435,733
Intangible assets	54,427	1,523	-	55,950
Plant in service subject to depreciation				
Source of supply	20,579,273	3,799,283	-	24,378,556
Pumping	10,305,882	484,363	-	10,790,245
Water treatment	30,555,820	6,667	-	30,562,487
Transmission & distribution	147,195,103	7,318,990	(486,318)	154,027,775
General plant	35,582,918	1,156,887	(379,441)	36,360,364
Completed construction, not yet classified	8,803,781	9,990,697	(8,803,781)	9,990,697
Total utility plant in service	254,512,937	22,758,410	(9,669,540)	267,601,807
Accumulated depreciation	(105,624,389)	(6,447,471)	728,178	(111,343,682)
Plant not subject to depreciation:				
Property held for future use	1,137,570	46,864	-	1,184,434
Construction work in progress	4,040,590	12,059,156	(13,036,481)	3,063,265
Net utility plant	$ 154,066,708	$ 28,416,959	$ (21,977,843)	$ 160,505,824

(Note 3 – Utility plant, continued)

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

Note 4 – Cash and investments

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

Restricted Cash and Investments

- **Customer Deposits and Other**
  Used to account for 1) deposits collected from retail customers and held for future refund or application to customer account balances, and 2) donations to the Customer Care Program.

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

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

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

- **Debt Service Reserves**
  Deposits held for debt service coverage pursuant to bond indentures and/or in lieu of bond sureties.

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

Detailed amounts for restricted cash and investments were as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Debt service reserves	$ 6,474,002	$ 2,338,981	$ 6,462,451	$ 2,334,808
Customer deposit and other	2,210,969	-	1,787,504	-
Harvest Wind escrow accounts	2,043,333	-	2,064,302	-
Construction funds	45,113,395	8,723,788	10,242,347	11,192,213
System development charge reserves	-	5,328,516	-	4,306,056
Investments for bond principal and interest	32,038	7,696	6,867,942	1,729,315
Total restricted cash and investments	$ 55,873,737	$ 16,398,981	$ 27,424,546	$ 19,562,392

Designated Cash and Investments

- **Rate Stabilization Fund**
  Used to account for cash and investments the Board has designated to reserve for one time expenditures, with any allocations made at Board discretion.

- **Power Reserve**
  Used to account for cash and investments the Board has designated to reserve for fluctuations in purchased power costs, load, generation levels, or margin requirements.

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

- **Alternate water supply reserve**
  Used to account for cash and investments the Board has designated to reserve for costs incurred to create a secondary water source.

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

- **Operating Reserves**
  Used to account for cash and investments the Board has designated for payments of emergency operating costs, self-insured claims, and funds set aside for payment of the Harvest Wind bank anticipation note.

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

(Note 4 – Cash and investments, continued)

Detailed amounts for designated cash and investments were as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Rate stabilization fund	$ 31,298,759	$ 1,307,263	$ 17,084,316	$ 6,351,468
Power reserve	17,000,000	-	27,359,486	-
Capital improvement reserve	22,414,827	7,889,164	26,286,517	12,000,176
Alternate water sources reserve	-	6,308,060	-	5,237,197
Carmen-Smith reserve	-	-	15,790,304	-
Operating reserve	5,824,249	1,576,036	6,069,965	1,767,826
Pension and medical reserve	13,849,929	4,389,312	10,949,929	1,889,312
Total designated cash and investments	$ 90,387,764	$ 21,469,835	$ 103,540,517	$ 27,245,979

Deposits with financial institutions are comprised of bank demand deposits, certificates of deposit, and money market accounts. The total bank balances, as recorded in bank records at December 31, 2017, were $49.6 million. Of the bank balances, $3.2 million were covered by federal depository insurance and $46.5 million were collateralized with securities.

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

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

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

As of December 31, 2017, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	$ 47,291,319	0.00	24.3%
U.S. Agency Securities				
FHLB		21,907,536		11.3%
FNMA		15,293,431		7.9%
FHLMC		12,341,794		6.3%
FFCB		21,423,211		11.0%
FAMCA		7,148,288		3.7%
Other Agency		8,937,568		4.6%
Subtotal US Agency	AA	87,051,828	0.90	44.8%
U.S. Treasury Securities	AAA	48,021,725	1.22	24.6%
Municipal Bonds	AA	525,289	1.47	0.3%
Corporate Bonds	AA	11,659,193	0.79	6.0%
Subtotal all securities		147,258,035	0.55	75.7%
Total		$ 194,549,354	0.42	100.0%

(Note 4 – Cash and investments, continued)

As of December 31, 2016, the Board held the following investments (Electric and Water Systems combined):

Investment Type	Credit Rating	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Local Government Investment Pool	Unrated	$ 46,790,627	0.00	23.6%
U.S. Agency Securities				
FHLB		28,816,090		14.6%
FNMA		22,784,994		11.5%
FHLMC		14,348,782		7.2%
FFCB		24,468,434		12.4%
FAMCA		9,982,400		5.0%
Other Agency		12,657,568		6.4%
Subtotal US Agency	AA	113,058,268	1.36	57.1%
U.S. Treasury Securities	AAA	18,900,866	0.84	9.5%
Municipal Bonds	AA	1,527,845	1.16	0.8%
Corporate Bonds	AA	17,764,297	1.37	9.0%
Subtotal all securities		151,251,276	1.29	76.4%
Total		$ 198,041,903	0.99	100.0%

Concentration risk is when investments are concentrated in one issuer. This concentration presents a heightened risk of potential loss. This does not apply for pooled investments or investments directly in the US government. ORS 294.035 limits investment in any single issuer of bonds to 5% of a portfolio; there is not a limit for investment in US Agencies. Many government-sponsored agency securities are not backed by the full faith and credit of the US government, including those held by the Board, although market participants widely believe the government would provide financial support to an agency if the need arose. The Board does not have a policy for investment concentration in those agencies. Regarding the LGIP, with the exception of pass-through funds, the maximum amount of pooled investments to be placed in the pool is limited by ORS 294.810, *Local governments authorized to place limited funds in pool,* to $48.3 million as of December 31, 2017.

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

As a means of limiting its exposure to fair value losses resulting from changes in interest rates, the Board's investment policy limits at least 25% of its investment portfolio to maturities of less than 180 days. Investment maturities are limited as follows:

Maturity	Minimum Investment
Less than 180 days	25%
Less than 1 year	40%
Less than 2 years	65%
Less than 3 years	100%

Custodial credit risk for investments is 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 in the possession of an outside party because they are neither insured nor registered and they are held by the counterparty or the counterparty's trust department or agent, but not in the investor's name. All of the aforementioned investments, and the investments in the LGIP, which are not evidenced by securities, are held in the Board's name by a third-party custodian.

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

(Note 4 – Cash and investments, continued)

Cash and investments consisted of the following:

	Restricted Cash and Investments	Cash and Cash Equivalents and Short-term Investments	Designated Funds	Total Carrying Amount 2017	Total Carrying Amount 2016
ELECTRIC SYSTEM					
Cash on hand	$ -	$ 13,560	$ -	$ 13,560	$ 13,560
Cash in bank	8,184,011	24,551,718	-	32,735,729	14,356,596
Investments in the State of Oregon local government investment pool	11,171,121	5,412,543	21,784,742	38,368,406	35,458,246
Investments - US Agencies, Treasuries and Corp.	36,518,605	14,036,980	68,603,022	119,158,607	115,297,698
Total electric system	55,873,737	44,014,801	90,387,764	190,276,302	165,126,100
WATER SYSTEM					
Cash in bank	2,346,677	9,110,430	-	11,457,107	6,378,031
Investments in the State of Oregon local government investment pool	3,386,806	361,570	5,174,537	8,922,913	11,332,381
Investments - US Agencies, Treasuries and Corp.	10,665,498	1,138,632	16,295,298	28,099,428	35,953,578
Total water system	16,398,981	10,610,632	21,469,835	48,479,448	53,663,990
	$ 72,272,718	$ 54,625,433	$ 111,857,599	$ 238,755,750	$ 218,790,090

Note 5 – Fair Value Measurement

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Board determines disclosures related to these investments only need to be disaggregated by major type because investing is not a core part of the Board's mission. The Board has the following recurring fair value measurements:

As of December 31, 2017:

		Fair Value Measurements Using		
	2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
Debt securities				
US treasury securities	$ 48,021,725	$ 48,021,725	$ -	$ -
US agencies	87,051,828	-	87,051,828	-
Corporate bonds	11,659,193	-	11,659,193	-
Municipal bonds	525,289	-	525,289	-
Total debt securities	$ 147,258,035	$ 48,021,725	$ 99,236,310	$ -
Derivative instruments				
Effective hedge-asset	$ 40,560	$ -	$ 40,560	$ -
Effective hedge-liability	(498,960)	-	(498,960)	-
Total derivatives	$ (458,400)	$ -	$ (458,400)	$ -

Note 5 – Fair Value Measurement (continued)

As of December 31, 2016:

				Fair Value Measurements Using				
		2016		Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)
Investments by fair value level								
Debt securities								
US treasury securities	$	18,900,866	$	18,900,866	$	-	$	-
US agencies		113,058,268		-		113,058,268		-
Corporate bonds		17,764,297		-		17,764,297		-
Municipal bonds		1,527,845		-		1,527,845		-
Total debt securities	$	151,251,276	$	18,900,866	$	132,350,410	$	-
Derivative instruments								
Investment derivative	$	1,295,200	$	-	$	1,295,200	$	-
Effective hedge-asset		2,695,395		-		2,695,395		-
Effective hedge-liability		(818,560)		-		(818,560)		-
Total derivatives	$	3,172,035	$	-	$	3,172,035	$	-

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 of the fair value hierarchy are valued using various market and industry inputs, including institutional bond quotes.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using an approach considering contract prices with forecast market prices.

Note 6 – Receivables

Significant receivables were as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Current receivables				
Accounts receivable	$ 35,388,776	$ 3,811,717	$ 32,154,023	$ 3,115,801
Allowance for doubtful accounts	(501,883)	(27,787)	(503,394)	(34,146)
Net accounts receivable	34,886,893	3,783,930	31,650,629	3,081,655
Loans to customers	1,510,122	110,652	1,342,872	92,113
Receivable from FEMA	3,483,162	-	-	-
Interest receivable	475,293	97,405	1,898,659	124,365
Miscellaneous receivables	263,329	-	320,502	-
Receivables, less allowances	$ 40,618,799	$ 3,991,987	$ 35,212,662	$ 3,298,133
Long-term receivables				
Incentive loans to customers	$ 3,426,356	$ 121,595	$ 2,786,305	$ 157,206
Interest receivable (WGA)	-	-	667,401	-
Long-term receivables, conservation and other	$ 3,426,356	$ 121,595	$ 3,453,706	$ 157,206

Note 7 – Payables

Current payables were as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Accounts payable	$ 4,441,497	$ 1,013,722	$ 3,492,960	$ 732,364
Accrued purchased power	12,923,125	-	18,659,087	-
Construction payables	284,249	25,024	1,088,762	442,980
Contributions in lieu of taxes	1,389,638	-	1,378,527	-
Customer deposits	1,237,055	-	1,030,755	-
Equipment purchases	518,027	-	433,043	-
Miscellaneous payables	277,103	73,723	140,103	26,424
Preliminary investigations payables	606	-	68,840	-
Total payables	$ 21,071,300	$ 1,112,469	$ 26,292,077	$ 1,201,768

Note 8 – Other assets and other liabilities

Other assets and other liabilities were as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Other assets				
Non-utility property	$ 7,830,500	$ 153,888	$ 7,830,500	$ 153,888
Research & demonstration projects	140,989	-	-	-
Derivatives at fair value	40,560	-	2,695,395	-
Option premiums long-term	-	-	237,160	-
Joint-use equipment	4,110	1,732	16,440	6,928
Prepaid transmission expense - Harvest Wind	1,061,663	-	1,158,914	-
Regulatory assets				
Pension debits	21,734,133	4,770,907	15,537,342	3,410,634
Conservation assets	1,220,854	-	1,279,943	-
Unamortized bond issue costs	1,464,276	517,112	1,308,162	552,717
Accreted interest - capital appreciation bonds	-	-	7,726,013	-
Other assets	$ 33,497,085	$ 5,443,639	$ 37,789,869	$ 4,124,167
Other liabilities				
Derivatives at fair value	$ 498,960	$ -	$ 818,560	$ -
Accreted interest on capital appreciation bonds	-	-	7,726,013	-
Environmental clean up	339,800	-	484,000	-
Sick leave - upon retirement	794,343	174,368	967,733	232,552
System development charge	-	34,138	-	34,932
Other liabilities	$ 1,633,103	$ 208,506	$ 9,996,306	$ 267,484

Note 9 – Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources and deferred inflows of resources were as follows:

	2017		2016	
	Electric System	Water System	Electric System	Water System
Deferred outflows of resources				
Accumulated decrease in fair value of hedging derivatives	$ (796,240)	$ -	$ 818,560	$ -
Accumulated increase in fair value of investment derivatives	1,295,200	-	1,295,200	-
Unamortized losses on bond refunding	9,623,246	1,757,600	11,156,922	1,957,183
Net difference between projected and actual earnings on investments	714,364	156,812	17,152,863	3,765,264
Differences between expected and actual experience	3,353,312	736,093	2,872,531	630,556
Changes of assumptions	12,639,446	2,774,512	18,517,563	4,064,831
Differences between Board contributions and proportionate share of contributions	2,554,210	560,680	1,883,237	413,393
Pension contributions subsequent to measurement date	4,027,506	884,087	3,327,144	730,348
Deferred outflows of resources	$ 33,411,044	$ 6,869,784	$ 57,024,020	$ 11,561,575
Deferred inflows of resources				
Accumulated increase in fair value of hedging derivatives	$ 40,560	$ -	$ 2,695,395	$ -
Changes in proportion	7,815,237	1,715,540	4,598,526	1,009,432
Deferred inflows of resources	$ 7,855,797	$ 1,715,540	$ 7,293,921	$ 1,009,432

Note 10 – Investment in WGA

The Board is a party to an Intergovernmental Agency, which is governed equally by the Board and Clatskanie PUD. The Board was obligated to make equity investments in the Western Generation Agency (the Agency) as partial funding for the construction of the Wauna Cogeneration Project (the Project). As of December 31, 1996, the Board had made all required equity investments, totaling $15.1 million, to the Agency. The Project agreements allow the Board to be repaid its equity investment plus a cumulative preferred dividend at 7.875% should the operating revenues of the Project be sufficient to cover operating costs, debt service, plus other reserve requirements. In October 2006, the Agency accomplished a refunding of its debt, which allowed the Board to be repaid a significant portion of its remaining equity investment ($10.4 million was repaid in 2006). The balance of the original investment at December 31, 2006 was $2.2 million. Repayment of the equity investment was restricted from payment until the Agency's Series C 2006 debt was paid off, which was accomplished during 2016, however, it is further contingent upon successful operation of the Project. During 2017, the Board received $2.9 million from the Agency toward repayment of the remaining original equity contribution and the preferred dividend which was in arrears. At December 31, 2017, the Board had a receivable in the amount of $55,000 for preferred dividends on a remaining original equity investment of $1.6 million ($2.2 million in interest and preferred dividends receivable on the remaining original equity investment of $2.2 million at December 31, 2016). Revenue from preferred dividends is included with investment earnings.

The investment in Western Generation Agency consists of the balance of the initial equity contribution, 50% of the Agency's net income and losses, and distributions from excess cash. Under bond agreements, distributions to the Board are limited to $400,000 per year until the outstanding balance of the Board's original investment is paid in full. During 2017, $254,000 in distributions were received ($400,000 in 2016). The balance of the investment as of December 31, 2017 was $3.7 million including estimated income of $1.1 million ($3.5 million at December 31, in 2016 including estimated income of $1.1 million). Income is reported with investment earnings.

The Board is committed, through a power purchase agreement, to purchase the output from the Project through April 2021. The Board suspended its agreement with the Agency in favor of a separate purchase power agreement between the Agency and BPA, which was in effect through April 2016, after which the Board and Clatskanie PUD each purchase 50% of the output. Financial information for the Project is included in the financial statements of the Agency and may be obtained from the Agency's trustee, US Bank.

Note 11 – Investment in Harvest Wind

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

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

The investment in Harvest Wind consists of the Board's share of the costs to develop the project, 20% of the Project's net income and losses, and any preferred distributions. At December 31, 2017, the balance of the Board's investment in Harvest Wind was $22.3 million ($23.7 million at December 31, 2016) including estimated income of $17,000 ($445,000 in 2016) and distributions of $1.4 million ($1.8 million in 2016).

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

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

Under the terms of a transmission agreement, the Board has $677,000 as of December 31, 2017 ($709,000 at December 31, 2016) on deposit in an escrow account to ensure the payment of monthly transmission interconnection expenses.

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

Note 12 – Long-term debt

On June 8, 2017, the Electric System placed $36.5 million in escrow to defease, in substance, its 2001A term and capital appreciation bonds which will mature naturally through year 2027. Paying those debt service costs up-front resulted in an accounting loss of $15.7 million; however, a present value savings of approximately $2.8 million was achieved.

On September 21, 2017, the Electric System issued $33.8 million in revenue bonds to finance relicensing, design and construction of the Carmen-Smith Hydroelectric Project and other projects in the Electric capital improvement plan.

On May 19, 2016, the Water System issued $39.2 million in revenue and revenue refunding bonds with an average coupon of 4.2 percent and an all-in yield of 2.9 percent. Net proceeds of $43.1 million plus $3.6 million released from debt service funds were used to refund Series 2002 and 2005; to advance refund 2008, and to provide $16 million in construction funds for capital improvements. Application of the proceeds for refunding and the released debt service funds, reduced aggregate debt service payments through year 2038 by $5.6 million. The economic gain was $4 million.

On August 1, 2016, the Electric System placed $26.9 million from the sale of its Smith Creek project, and other funds on hand, in escrow to defease $23.8 million of its Series 2012 bonds, which were issued in part to fund construction of the Smith Creek project. Although the defeasance resulted in recognition of an accounting loss of $1.5 million for the year ended December 31, 2016, the Board eliminated nearly $28 million in debt service for the bonds and attained a net present value savings of $503,000.

On September 7, 2016, the Electric System issued $115.2 million in revenue refunding bonds to refund its Series 2005 and 2006 bonds, to advance refund Series 2008, and to advance refund a portion of its Series 2011A. Net proceeds of $134.8 million, after payment of issuance costs, together with $3.9 million released from debt service funds and $1.8 million in remaining construction proceeds from Series 2011A were used to reduce future debt service payments by $19.1 million. The all-in yield on these bonds was 2.4 percent. The economic gain was $13.2 million.

The Board defeased bonds described above by placing proceeds and other sources of cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements. At December 31, 2017, $149,193,000 of Electric System bonds and $12,460,000 of Water System bonds outstanding are considered defeased ($136,235,000 of Electric System bonds and $13,190,000 of Water System bonds at December 31, 2016).

Bonds payable were as follows:

	2017	2016
Electric Utility System Revenue and Refunding Bonds		
2001 Series A, 11-15-01 issue		
Term bonds, 6.32%, due 2022	$ -	$ 16,415,000
Capital appreciation, 7.13% - 7.21%, due 2023-2027	-	4,067,556
2011 Series A, 6-08-11 issue		
Serial bonds 1.90% - 2.85%, due 2017-2020	7,035,000	9,190,000
2011 Series B, 6-08-11 issue		
Serial bonds 1.00% - 4.35%, due 2013-2023	5,375,000	6,165,000
2012 Series, 8-1-12 issue		
Serial bonds 2.00% - 5.00%, due 2013-2032	15,390,000	18,225,000
Term bonds, 5.00%, due 2033-2038	10,165,000	10,165,000
Term bonds, 3.75%, due 2039-2042	8,475,000	8,475,000
2016 Series A, 9-7-16 issue		
Serial bonds 2.00% - 5.00%, due 2017-2036	84,445,000	85,035,000
Term bonds 4.00%, due 2037-2040	8,065,000	8,065,000
2016 Series B, 9-7-16 issue		
Serial bonds .835% - 1.840%, due 2017-2022	19,245,000	22,050,000
2017 Series, 9-21-17 issue		
Serial bonds 5.00%, due 2027-2043	24,450,000	-
Term bonds 5.00%, due 2047	9,345,000	-
	191,990,000	187,852,556
Add unamortized premium	27,943,892	23,591,761
Electric System bonds payable	219,933,892	211,444,317
Less current portion	8,370,000	11,165,000
Electric System bonds payable, net of current portion	211,563,892	200,279,317

(Note 12 – Long-term debt, continued)

	2017	2016
Water Utility System Revenue and Refunding Bonds		
Serial bonds, 2.00% - 4.25%, due 2014-2031	$ 7,690,000	$ 8,125,000
Term bonds, 4.50% - 5.00%, due 2032-2040	7,935,000	7,935,000
2016 Series, 5-19-16 issue		
Serial bonds, 2.00% - 5.00%, due 2017-2037	30,915,000	32,320,000
Term bonds 4.00%, due 2038-2045	6,860,000	6,860,000
	53,400,000	55,240,000
Add unamortized premium	5,503,285	5,873,233
Water System bonds payable	58,903,285	61,113,233
Less current portion	2,160,000	1,840,000
Water System bonds payable, net of current portion	56,743,285	59,273,233
Total Systems long-term debt, net of current portion	$ 268,307,177	$ 259,552,550

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

	Electric System		Water System	
	Principal	Interest	Principal	Interest
2018	$ 8,370,000	$ 7,915,523	$ 2,160,000	$ 2,282,250
2019	8,445,000	7,927,893	2,230,000	2,220,788
2020	8,540,000	7,677,921	2,325,000	2,138,413
2021	6,745,000	7,432,356	2,415,000	2,050,113
2022	8,260,000	7,256,751	2,525,000	1,938,963
2023 - 2027	40,670,000	31,049,293	10,115,000	8,285,300
2028 - 2032	46,450,000	20,793,063	10,935,000	5,843,350
2033 - 2037	27,610,000	11,975,765	10,795,000	3,590,850
2038 - 2042	25,490,000	5,959,239	7,415,000	1,275,600
2043 - 2047	11,410,000	1,767,000	2,485,000	201,400
	$ 191,990,000	$ 109,754,803	$ 53,400,000	$ 29,827,027

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Board must comply. The principal and interest requirements are reflected in the supplementary schedule "Long-Term Bonded Debt and Interest Payment Requirements." To comply with sinking fund deposit requirements, the Board deposits monthly one-twelfth of the annual deposit requirement with the trustee, less accumulated interest earnings. The interest payments are made semi-annually on February 1 and August 1, and principal payments on August 1. At December 31, 2017 and 2016, no assets were pledged as security for the outstanding bonds of the Electric and Water Systems.

(Note 12 – Long-term debt, continued)

Long-term debt activity for the year ended December 31, 2017 was as follows:

	Outstanding January 1, 2017	Additions	Reductions	Outstanding December 31, 2017	Due Within One Year
Electric revenue bonds - current interest	$ 183,785,000	$ 33,795,000	$ (25,590,000)	$ 191,990,000	$ 8,370,000
Electric Revenue Bonds - Capital Appreciation	4,067,556	-	(4,067,556)	-	-
Total Electric System	187,852,556	33,795,000	(29,657,556)	191,990,000	8,370,000
Water revenue bonds	55,240,000	-	(1,840,000)	53,400,000	2,160,000
Total bonded debt	$ 243,092,556	$ 33,795,000	$ (31,497,556)	$ 245,390,000	$ 10,530,000

Long-term debt activity for the year ended December 31, 2016 was as follows:

	Outstanding January 1, 2016	Additions	Reductions	Outstanding December 31, 2016	Due Within One Year
Electric revenue bonds - current interest	$ 232,080,000	$ 115,150,000	$ (163,445,000)	$ 183,785,000	$ 11,165,000
Electric Revenue Bonds - Capital Appreciation	4,067,556	-	-	4,067,556	-
Total Electric System	236,147,556	115,150,000	(163,445,000)	187,852,556	11,165,000
Water revenue bonds	45,560,000	39,180,000	(29,500,000)	55,240,000	1,840,000
Total bonded debt	$ 281,707,556	$ 154,330,000	$ (192,945,000)	$ 243,092,556	$ 13,005,000

Note 13 – Intersystem receivables and payables

	2017		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
Current			
Interest	$ 18,544	$ (18,544)	$ -
Lease	304,041	(304,041)	-
	322,585	(322,585)	-
Non-current			
Lease	8,791,647	(8,791,647)	-
	8,791,647	(8,791,647)	-
Totals	$ 9,114,232	$ (9,114,232)	$ -

	2016		
	Electric System	Water System	Total Systems
Due from Water, (Due to) Electric			
Current			
Interest	$ 186,857	$ (186,857)	$ -
Note - retirement obligation	207,277	(207,277)	-
Lease	476,522	(476,522)	-
	870,656	(870,656)	-
Non-current			
Note - retirement obligation	2,003,672	(2,003,672)	-
Lease	14,608,329	(14,608,329)	-
	16,612,001	(16,612,001)	-
Totals	$ 17,482,657	$ (17,482,657)	$ -

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

Retirement Obligation

In 2001, the Electric System issued bonds to pay a portion of the Board's unfunded actuarial liability for the Oregon Public Employees Retirement System. The Water System was repaying the Electric System over the life of the debt service for its estimated share. In June 2017, the Electric System defeased in substance the related debt. Accordingly, the Water System paid $5.3 million to the Electric System to pay off the remaining share. The payment included $3.1 million for its estimated share of interest payments, which will be paid from trust through 2027. The interest payment made to the Electric System is included with the Electric System's interest earnings and the Water System's interest expense at December 31, 2017.

Note 13 – Intersystem receivables and payables (continued)

Roosevelt Operations Center Lease

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

Lease payments are revised for refinancing of underlying contributions made by the Electric System. The amount financed by the lease is also revised for capitalized improvements at the facility if they are financed by the Electric System. As of September 2016, the lease was revised for effects of Electric's issuance of refunding bonds Series 2016A, which reduced the interest component of the lease by $4.4 million over the years of 2017 through 2040, and by $86,000 in year 2016. In June of 2017, the Water System made a lump-sum payment of $5.7 million to the Electric System. As of December 31, 2017, minimum lease payments were approximately $44,000 per month including effects of the lump-sum payment (approximately $70,000 per month as of December 31, 2016) on a capitalized value of $17.6 million.

Annual totals for lease payments (including interest) as of December 31, 2017 were as follows:

2018	$ 523,173
2019	523,173
2020	523,173
2021	523,173
2022	523,173
2023 - 2027	2,615,863
2028 - 2032	2,615,863
2033 - 2037	2,615,863
2038 - 2040	1,395,127
	$ 11,858,581

Note 14 – Special item

The Board expensed preliminary investigation assets of $9.6 million for the year ended December 31, 2016. These were pre-construction costs for a fish ladder and fish screen at the Carmen-Smith Hydroelectric Project. Fish passage measures were articulated in a settlement agreement in 2008, which became an addendum to the Board's earlier application for license from FERC.

Effective November 30, 2016, the Board has a renegotiated settlement agreement which provides trap-and-haul fish passage as an alternative to the screen and ladder. The new agreement is authoritative, and as a result, these costs no longer represent an asset expected to result in construction.

Note 15 – Power supply resources

Bonneville Power Administration

- **Bonneville Power Administration Contracts**

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

  Each product provides attributes bringing different kinds of flexibility to the Board's power portfolio. The Slice product provides a percentage of BPA's resources rather than a guaranteed amount of power and in exchange the Board pays its Slice contract percentage share of BPA's costs. Slice output, in combination with the Block and other EWEB resources, may be more or less than what is needed to serve EWEB's hourly retail loads. In the spring months, available must-run water in the Columbia system is typically high due to the runoff from snow melting, and the increased power generation may require BPA to rely on spilling water as a tool to balance generation with demand. However, in order to maintain safe water conditions to protect fish, spills are limited. The risk associated with the Slice product is managing the water variability and available Slice storage to economically meet hourly load obligations and to optimally dispatch the value of the surplus portion of the Slice product.

  The Slice product consists of a Slice share of BPA's Federal Base System generation. Under the new contract, the Board's initial Slice percentage share is 1.81%, compared to the historical 2.40% in the previous Requirements contract. The amount of actual power received under the Slice product will vary with seasonal water year conditions, the performance of the Columbia Generating Station (CGS) nuclear plant and the performance and availability of all other Federal Base System resources. In years of heavy water flow and lack of overall storage in the Federal System, the Board may have rights to power in excess of their needs, and in low water years the Board would need to augment its share of Slice output with its own generation, market purchases, or storage releases from EWEB's share of Slice storage.

  The second BPA product purchased is the Block, which provides a fixed hourly amount for the month, and varies by month. The value of the Block product is the certainty of a fixed volume of power shaped to monthly load requirement and the monthly predictability of prices for the known quantity of power.

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

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

EWEB-Owned Resources

- **Carmen-Smith and Trailbridge Hydroelectric Project**
EWEB owns and operates the Carmen-Smith Hydroelectric Project (Carmen-Smith Project) within the McKenzie River basin. The Carmen-Smith Project includes the Carmen Power House with two generating units with a nameplate capacity of 52 MW each. The Carmen-Smith Project also includes the Trail Bridge re-regulating facility, with an additional generating unit with a nameplate capacity of 10 MW.

  The federal operating license for the Carmen-Smith Project expired on November 30, 2008. The Board submitted an application to relicense the facility to the FERC in 2006, and supplemented the application with a comprehensive settlement agreement, signed by state and federal agencies, Native American tribes and non-governmental organizations, in 2008. A revised and restated Settlement Agreement was filed with the FERC in November 2016.

  FERC action on EWEB's license application as amended by the revised Settlement Agreement is pending. Since 2008, EWEB has received, and will continue to receive, an annual operating license from FERC until the new license is ultimately issued. EWEB expects that the new license will be issued in 2018.

- **International Paper Industrial Energy Center Cogeneration Project**
The Board and International Paper Company jointly operate a cogeneration facility at the International Paper Springfield plant. The unit, which has a nameplate capacity of 25.4 MW (average output is approximately 20 aMW), is owned by the Board, with International Paper providing operation and fuel. Under terms of the current agreement (which expires in 2019), the project costs and output for this unit are shared equally by the parties.

- **Leaburg Walterville Hydroelectric Project**
The Board owns and operates the Leaburg Walterville Hydroelectric Project (L-W Project) on the McKenzie River in Lane County, Oregon. The L-W Project is comprised of two run-of-river facilities located at different points on the McKenzie River. The Leaburg facility includes a diversion dam on the McKenzie River, a canal and two generating units with a combined nameplate capacity of 15.9 MW. The Walterville facility includes a canal diverting water from the McKenzie River and one generating unit with a nameplate capacity of 8 MW. In April 2000, FERC granted the Board a new hydroelectric license for the L-W Project. The new license is for a term of 40 years.

(Note 15 – Power supply resources, continued)

- **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 Stone Creek facility is operated and maintained for EWEB by PGE and is licensed through August 2039.

Jointly-Owned Resources

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

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

- **Western Generation Agency**
  The Board and Clatskanie People's Utility District equally govern the Western Generation Agency, which owns a 36 MW nameplate cogeneration project at the Georgia Pacific mill in Wauna, Oregon. The generation facility includes a steam turbine and a fluidized bed boiler. EWEB and CPUD each purchase 50% of the output. The power purchase agreement expires in April 2021.

Contract Resources

- **Stateline Wind Project**
  In 2002, the Board agreed to purchase 25 MW from Phase 1 of the Stateline Wind Project located in Walla Walla County, Washington and Umatilla County, Oregon. The project consists of 454 wind turbines with a total project nameplate capacity of 300 MW. The contract for this power expires on December 31, 2026.

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

- **Seneca Sustainable Energy**
  In 2010, the Board entered into a Renewable Power Purchase Agreement with Seneca Sustainable Energy LLC to purchase the output of the biomass fueled electric cogeneration facility located in Eugene, Oregon. Nameplate capacity is 19.8 MW. Expected average output is approximately 14 aMW. The contract for this power expires on April 5, 2026.

- **Priest Rapids and Wanapum Hydroelectric Projects**
  The Board purchases power from the Priest Rapids Project composed of the Priest Rapids Dam and the Wanapum Dam, two large hydroelectric developments on the Columbia River in Washington owned by Public Utility District No. 2 of Grant County, Washington (Grant County PUD). The current power purchase contract with Grant County PUD continues through March 31, 2052. Under this contract, EWEB's share of purchased physical power from Grant County PUD is 0.14% of the project output or about 1.4 aMW per year.

- **Smith Creek Hydroelectric Project**
  The Smith Creek project is a run-of-the-river hydroelectric project on Smith Creek, a tributary of the Kootenai River in Northern Idaho. It is comprised of three units with a combined nameplate capacity of 38.3 MW. The Board sold this project for $22.25 million in May of 2016, entering into a three year power purchase agreement with the new owner.

- **Energy Northwest**
  Energy Northwest is a Washington municipal corporation, engaged in the construction of five nuclear generation facilities (Projects Nos. 1,2,3,4 and 5), of which EWEB purchased a 0.061 percent share of Project No 1. The Board is not a member of Energy Northwest. EWEB, Energy Northwest, and Bonneville entered into a separate Net Billing Agreement, under which EWEB purchased from Energy Northwest, and in turn, assigned to Bonneville, EWEB's share of the capability. Construction of Project No 1 was terminated in 1994. However, under the Net Billing Agreement, Bonneville is responsible for EWEB's percentage share of the total annual cost of Projects No 1, including debt service on revenue bonds issued to finance the cost of construction, whether or not the Project was completed. This has resulted in no payments by, or credits to EWEB under the Net Billing Agreement. In the event that Bonneville fails to make a payment, or the parties terminate the agreement to directly pay, the original obligations of the Net Billing Agreements would resume. Bonneville has always met all of its obligations to Energy Northwest.

- **Solar PV Purchases**
  EWEB supports the development of Solar PV generation in Eugene through the provision of net metering rates to those customers with small systems that wish to self-generate power and renewable generation rates for customers with larger systems. To date, EWEB's Net Metered program has a total installed capacity of slightly over 3 MW and 0.37 aMW of energy and direct generation contracts with a total capacity of just over 2 MW and .29 aMW of energy.

Note 16 – Retirement benefits

1. Pension Plan

Plan Description

Board employees are provided with pensions through Oregon Public Employees Retirement System (OPERS). It is a cost sharing multiple-employer defined benefit pension plan. All Board employees are eligible to participate in OPERS after six months of employment. Oregon PERS, a component unit of the State of Oregon, issues a comprehensive annual financial report, which may be obtained from the OPERS website, www.oregon.gov/pers.

(Note 16 – Retirement benefits, continued)

Description of Benefit Terms
All benefits of the OPERS are established by the legislature pursuant to ORS Chapters 238 and 238A.

- **Tier One/Tier Two Retirement Benefit (Chapter 238)** Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

Pension Benefits
The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. Retirement benefits are determined as 1.67 percent of the employee's final average salary times the employee's years of retirement credit. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.
A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with the Board. General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits
Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits
A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000.

- **OPSRP Pension Program (OPSRP DB)**

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first $60,000 of annual benefit and 0.15 percent on annual benefits above $60,000.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

(Note 16 – Retirement benefits, continued)

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation. The rates based on a percentage of payroll, first became effective July 1, 2015. Employer contribution rates changed during 2017, based on the December 31, 2015 actuarial valuation. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced. The Board has elected to make lump-sum payments to OPERS, during 2007 and 2001, which has had the effect of lowering the employer contribution rate. The Board's contribution rates effective July 1, 2015 were 21.99% for Tier One/Tier Two members and 16.94% for OPSRP General service members. The Board's contribution rates effective July 1, 2017 were 27.51% for Tier One/Tier Two members and 21.33% for OPSRP General service members. Employer contributions for the year ended December 31, 2017 were $9.2 million ($8.1 million in 2016), excluding amounts to fund employer specific liabilities.

Pension liability, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions

At December 31, 2017, the Board reported a net pension liability of $84,560,981 for its proportionate share of the OPERS net pension liability ($105,883,444 in 2016). The net pension liability was measured as of June 30, 2017 and the total pension liability for each plan used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017 using standard update procedures. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the plan relative to the projected contributions for all participating employers, actuarially determined. The Board's proportionate share of the net pension asset as of June 30, 2017 was 0.62730522%.

For the year ended December 31, 2017, the Board's proportionate share of system pension expense was $18.2 million. The Board has elected to use regulatory accounting to recognize pension expense in conjunction with the required employer contribution rates. Accordingly, the Board recognized pension expense related to Tier One/Tier Two and OPSRP of $8.3 million.

As of December 31, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on plan investments	$ 871,176	$ -
Differences between expected and actual experience	4,089,405	-
Changes in assumptions	15,413,958	-
Changes in employer proportion	-	9,530,777
Differences between employer contributions and proportionate share of contributions	3,114,890	-
Pension contributions subsequent to measurement date	4,911,593	-
	$ 28,401,022	$ 9,530,777

$4.9 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are to be amortized as pension debits and pension credits as follows:

Fiscal Year	Net difference between projected and actual earnings on investments	Differences between expected and actual experience	Changes of assumptions	Changes in proportion	Differences between employer contributions and proportionate share of contributions
2018	$ (2,899,267)	$ 1,284,344	$ 5,251,720	$ (2,589,100)	$ 1,025,488
2019	6,519,689	1,284,344	5,251,720	(2,589,100)	911,769
2020	1,839,998	949,754	4,910,518	(2,427,823)	651,995
2021	(4,589,244)	465,076	-	(1,556,155)	421,276
2022	-	105,887	-	(368,599)	104,362
	$ 871,176	$ 4,089,405	$ 15,413,958	$ (9,530,777)	$ 3,114,890

Actuarial Methods and Assumptions Used in Developing the Total Pension Liability

The total pension liability in the December 31, 2015 actuarial valuations were determined using the following actuarial assumptions.

Valuation date	December 31, 2015
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal
Actuarial Assumptions:	
Discount rate	7.50%
Inflation	2.50%
Payroll growth	3.50%
Projected salary increase	3.50%
Investment rate of return	7.50%

Mortality rates for healthy retirees and beneficiaries were based on the RP-2000 Sex-distinct tables, as appropriate, with adjustments for mortality improvements based on Scale BB. Mortality rates for active members are a percentage of healthy retiree rates that vary by group, as described in the valuation. For disabled retirees, mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 generational disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

(Note 16 – Retirement benefits, continued)

Discount Rate
The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Rate of Return
To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption.

These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Assumed Inflation - Mean		2.50%

Sensitivity of Net Pension Liability to Changes in the Discount Rate (in Millions)
As of June 30, 2016

Employers' Net Pension Liability	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Defined Benefit Pension Plan	$ 144,107,351	$ 84,560,981	$ 34,769,188

Pension plan fiduciary net position

Detailed information about each pension plan's fiduciary net position is available in the separately issued OPERS financial reports.

Payable to the pension plan

The Board had $430,000 in contributions payable to the pension plan for the year ended December 31, 2017.

Changes in plan provisions during the measurement period

There were no changes in plan provisions during the measurement period.

(Note 16 – Retirement benefits, continued)

Changes in plan provisions subsequent to the measurement period
There were no changes in plan provision subsequent to the measurement period.

- **Defined contribution pension - OPSRP Individual Account Program (OPSRP IAP)**

Pension Benefits
Participants in the OPERS defined benefit pension plan also participate in the OPERS defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of the OPSRP Individual Account Program (IAP) may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a $200 minimum distribution limit.

Death Benefits
Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Recordkeeping
PERS contracts with VOYA Financial to maintain IAP participant records.

Contributions
Covered employees are required to contribute 6% of their salary to the plan. The Board has chosen to pay the employees' contributions to the plan. For 2017, the Board contributed $2.6 million for employees.

2. Postemployment Benefits Plan Other than Pensions

Plan Description
In addition to pension benefits, the Board provides postemployment health care and life insurance benefits to certain employees who retire under OPERS or OPSRP with at least 11 years of service at EWEB. The plan is administered as the Eugene Water & Electric Board Retirement Benefits Trust. It is a single-employer plan.

The life insurance benefit is a fixed amount of $5,000 per retiree. Health care coverage is provided in the form of a subsidy toward insurance premiums. The subsidy varies with years of service and the benefits offered by the Board at the time of an employee's hire and retirement. Medicare eligible retirees choose from Medicare supplement plans offered through OPERS. The subsidy for Medicare supplement coverage is established by the Board; however, the coverage is administered by OPERS as a cost sharing plan. Early retirees receive coverage under the group plan the Board offers to its active employees. Those group benefit provisions are established by the Board, and coverage is generally 80% of eligible medical costs. Dental and/or vision benefits are offered through the group plan for retirees with earlier hire and retirement dates. The plan's latest actuarial valuation dated August 31, 2016 included 449 retirees or surviving spouses of retired employees and 389 active employees.

During 2016, a change in plan provisions was negotiated with the International Brotherhood of Electrical Workers (IBEW) for active IBEW employees hired on or after January 1, 2003. At retirement, those employees will not receive a subsidy toward health care coverage. The August 31, 2016 actuarial valuation did not include active employees who are IBEW members.

During 2017, a change in plan provisions was made to management and unrepresented employees hired on or after January 1, 2003. EWEB will discontinue its subsidy of medical insurance premiums for employees who retire after October 1, 2017. Retirees and their families will continue to have access to EWEB healthcare insurance offered to the active employees; however, the retirees will pay the insurance premiums in full.

The obligation for payment of insured benefits rests with the insurance companies providing coverage. The Board does not guarantee benefits in the event of an insurance company's insolvency.

Funding Policy

Contributions required from retirees are established in the plan and may be amended by the Board. Contributions from participating retirees are either a flat rate or a percentage of premium costs and vary by participant according to the benefits in place when the participant was hired and/or retired. The Board's contributions are capped for the more recent retirees. The cap is expressed as a percentage of the Board's share of premium increases in a year. It is the Board's intent to pay the actuarially determined OPEB cost annually to the trust.

Annual OPEB Cost

The Board's annual expense for OPEB is calculated as the annual required contribution of the employer (ARC) net of actual contributions made and amortization of the Board's net OPEB asset. The ARC is an amount actuarially determined, based on the entry age normal method. The ARC represents level funding, that if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over an open 10-year period. Amortization is calculated as a level percentage of projected payroll using a salary scale assumption of 4.0% and a payroll growth rate of 3.5%. Actual contributions were $1.2 million during 2016 and $980,000 during 2017.

(Note 16 – Retirement benefits, continued)

The following table shows components of the Board's OPEB cost for year 2017 including changes in the Board's OPEB net asset. The net asset represents timing differences between the ARC and employer contributions in excess of the ARC in past years in order to fund the plan. Overall, the plan has an unfunded actuarial accrued liability.

Annual required contribution	$ 980,298
Interest on net OPEB asset	(389,540)
Adjustment to annual required contribution	754,247
Annual OPEB cost	1,345,005
Contributions made	(980,298)
Decrease in net OPEB asset	364,707
Net OPEB asset - beginning of year	(6,492,334)
Net OPEB asset - end of year	$ (6,127,627)

The most recent actuarial valuation assumes a return on investments of 6%. Health care premiums are assumed to increase by 2.5% in 2017 and 7% in 2018, 2019 and 2020, grading down by 0.5% each year to a long term rate of 4% by 2026.

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

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation or asset for 2016 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation (Asset)
12/31/2015	$ 1,166,812	100%	$ (6,680,934)
12/31/2016	$ 980,298	119%	$ (6,492,334)
12/31/2017	$ 980,298	100%	$ (6,127,627)

Funding Status and Funding Progress

As of the August 31, 2016 actuarial valuation, the plan was 72% funded. The actuarial accrued liability for benefits was $24.3 million, and the actuarial value of assets was $17.6 million, resulting in an unfunded actuarial accrued liability (UAAL) of $6.8 million.

The following table presents multiyear trends showing whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/1/2013	$ 19,257,425	$ 31,281,002	$ 12,023,577	62%	$ 42,796,406	28%
12/31/2014	$ 19,172,194	$ 26,579,575	$ 7,407,381	72%	$ 45,250,685	16%
8/31/2016	$ 17,552,403	$ 24,305,534	$ 6,753,131	72%	$ 33,748,758	20%

Covered payroll for year 2016 excludes active employees who are IBEW members.

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

Audited financial statements for the OPEB plan are obtainable by writing to the Board.

Note 17 – 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 Statements of Net Position.

Note 18 – 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 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.

(Note 18 – Trojan nuclear plant, continued)

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

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

A summary of the balance sheets for EWEB's share of the Trojan Project as of September 30, 2017 and September 30, 2016 is as follows.

	Unaudited September 30, 2017	Unaudited September 30, 2016
Assets		
Current assets	$ 1,999,390	$ 1,897,266
Long-term receivable, BPA, net	34,339,729	35,624,924
Total assets	$ 36,339,119	$ 37,522,190
Liabilities		
Current liabilities	$ 1,543,953	$ 1,603,242
Accumulated provision for decommissioning costs	34,795,166	35,918,948
Total liabilities	$ 36,339,119	$ 37,522,190

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

Note 19 – Commitments and contingencies

Electric Projects

- **Construction**
  Design and construction contracts for powerhouse upgrades at Carmen-Smith were $3.8 million ($5.6 million at December 31, 2016 for fleet acquisition, substation and Carmen-Smith powerhouse).

- **Carmen-Smith Relicensing**
  Preconstruction contracts for engineering, wildlife, and historic evaluation services were approximately $210,000 at December 31, 2017 (approximately $100,000 at December 31, 2016 for wildlife related services).

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

  A revised settlement agreement effective November 30, 2016 contains interim measures to accomplish while the license application is under review by FERC. Under terms of the agreement, the Board will perform improvements at Ice Cap Creek Campground during 2018. (Commitments at December 31, 2017 were to install gravel at fish passage and spawning areas and to construct recreational improvements at campsites and a parking area.)

Water Projects

Construction contracts related to reservoir rehabilitation and a disinfection system were approximately $680,000 ($1.8 million at December 31, 2016 for alternative water source property acquisition and improvements at the filtration plant).

Other Projects

Contractual commitments for advanced metering infrastructure were approximately $105,000 ($2.5 million at December 31, 2016).

The Board is replacing its customer billing system. Contracts were $6.1 million at December 31, 2017 for the early stages of the project.

The Board has an interest in protecting water quality as well as wildlife habitat along the waterway where it operates hydro projects. At December 31, 2016, the Board was committed to match funds up to $500,000 raised by the McKenzie River Trust as part of a funding campaign in November 2017 to support the Trust's acquisition of the 269-acre Finn Rock property located near Blue River. This payment occurred in 2017.

(Note 19 – Commitments and contingencies, continued)

Self-Insurance

The Board is exposed to various risks of loss because of the Board's self-insurance retention, up to the first $2,000,000 of exposure, per occurrence. Excess liability coverage protects the Board after the Board's self-insured limit is exhausted. However, public entities are also protected under State of Oregon tort limits ORS 30.260 – 30.300, *Tort actions against public bodies*, which reduce the liability to any single claimant to approximately $116,000 for property damage and approximately $710,000 for personal injury. Consequently, except in extreme cases, the Board's exposure is mitigated by law. The limit is subject to change by State of Oregon legislation.

Claims liabilities recorded in the financial statements are based on the estimated ultimate loss as of the Statement of net position date, adjusted from current trends through a case-by-case review of all claims, including incurred but not reported claims. Non-incremental claims adjustment costs such as salaries are not included in the claims estimates. At December 31, 2017, a total claims liability of approximately $165,548 is reported in the financial statements. All prior and current-year claim liabilities were fully reserved and have not been discounted.

		Liability Balance at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at End of Year
2015	General Liability	$ 130,000	$ (65,780)	$ (54,720)	$ 9,500
2016	General Liability	$ 9,500	$ 267,561	$ (207,511)	$ 69,550
2017	General Liability	$ 69,550	$ 311,845	$ (215,847)	$ 165,548

Claims and Other Legal Proceedings

The Board is involved in various litigations. 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, 2017.

MOSSADAMS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Commissioners
Eugene Water & Electric Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Eugene Water & Electric Board's (the Board), which comprise the individual and combined statements of net position as of December 31, 2017, and the related statements revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
March 19, 2018

Required Supplementary Information

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2017
LAST TEN YEARS*

	2014	2015	2016	2017
Proportion of the net pension asset	0.86138989%	0.79250364%	0.70531024%	0.62730522%
Proportionate share of the net pension asset/(liability)	$ 19,525,251	$ (45,501,290)	$ (105,883,444)	$ (84,560,981)
Covered - employee payroll	$ 41,130,143	$ 45,250,685	$ 44,141,193	$ 44,353,971
Proportionate share of the net pension asset/(liability) as percentage of covered-employee payroll	47%	101%	240%	191%
Plan's fiduciary net position	$ 65,401,492,664	$ 64,923,626,094	$ 62,082,059,102	$ 66,371,703,247
Plan fiduciary net position as a percentage of the total pension liability	103.60%	91.90%	80.50%	83.10%

*10 year trend information will be presented prospectively.

SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2017
LAST TEN YEARS*

	2014	2015	2016	2017
Contractually required contribution (actuarially determined)	$ 9,544,586	$ 9,734,173	$ 8,189,904	$ 8,256,069
Contributions in relation to the actuarially determined contribution	$ 9,544,586	$ 9,734,173	$ 8,189,904	$ 8,256,069
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered employee payroll	$ 41,130,143	$ 45,250,685	$ 44,141,193	$ 44,353,971
Contributions as a percentage of covered-employee payroll	23.21%	21.51%	18.55%	18.61%

Notes to Schedule

Valuation date:	12/31/2012, rolled forward to June 30, 2014	12/31/2013, rolled forward to June 30, 2015	12/31/2014, rolled forward to June 30, 2016	12/31/2015, rolled forward to June 30, 2017
Methods and assumptions used to determine contribution rates:				
Single and agent employers example	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Experience study report	2012, published September 18, 2013	2012, published September 18, 2013	2014, published September 23, 2015	2014, published September 23, 2015
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Remaining amortization period	Tier one/tier two - 20 year; OPSRP - 16 years	Tier one/tier two - 20 year; OPSRP - 16 years	Tier one/tier two - 20 year; OPSRP - 16 years	Tier one/tier two - 20 year; OPSRP - 16 years
Asset valuation method	Market value of assets	Market value of assets	Market value of assets	Market value of assets
Inflation	2.75%	2.75%	2.50%	2.50%
Salary increases	3.75%	3.75%	3.50%	3.50%
Investment rate of return	7.75%	7.75%	7.50%	7.50%
Retirement age	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP	55 for Tier 1/Tier 2; 65 for OPSRP
Mortality	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables	RP-2000 Sex-distinct tables
Discount rate	7.75%	7.75%	7.50%	7.50%

*10 year trend information will be presented prospectively.

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2017

	Revenue and Revenue Refunding 2011 A Series 6/8/2011		Revenue Refunding 2011B Series 6-29-11		Revenue and Revenue Refunding 2012 Series 8-01-12		Revenue Refunding 2016 A Series 9-7-16	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 2,225,000	$ 327,000	$ 815,000	$ 215,625	$ 430,000	$ 1,450,469	$ 1,605,000	$ 4,179,900
2019	2,335,000	215,750	840,000	188,323	450,000	1,433,269	1,275,000	4,147,800
2020	2,475,000	99,000	875,000	155,983	470,000	1,415,269	900,000	4,109,550
2021	-	-	915,000	120,983	485,000	1,396,469	1,215,000	4,073,550
2022	-	-	945,000	83,010	515,000	1,377,069	2,345,000	4,024,950
2023	-	-	985,000	42,848	1,810,000	1,351,319	6,300,000	3,931,150
2024	-	-	-	-	1,040,000	1,278,919	6,625,000	3,616,150
2025	-	-	-	-	1,085,000	1,237,319	6,875,000	3,284,900
2026	-	-	-	-	1,135,000	1,183,069	6,675,000	2,941,150
2027	-	-	-	-	1,195,000	1,126,319	6,000,000	2,607,400
2028	-	-	-	-	1,255,000	1,066,569	6,400,000	2,307,400
2029	-	-	-	-	1,315,000	1,003,819	6,615,000	1,987,400
2030	-	-	-	-	1,360,000	962,725	6,945,000	1,656,650
2031	-	-	-	-	1,400,000	918,525	7,290,000	1,309,400
2032	-	-	-	-	1,445,000	873,025	6,935,000	1,017,800
2033	-	-	-	-	1,495,000	826,063	5,175,000	740,400
2034	-	-	-	-	1,570,000	751,313	1,685,000	533,400
2035	-	-	-	-	1,650,000	672,813	1,755,000	466,000
2036	-	-	-	-	1,730,000	590,313	1,830,000	395,800
2037	-	-	-	-	1,815,000	503,813	1,900,000	322,600
2038	-	-	-	-	1,905,000	413,063	1,975,000	246,600
2039	-	-	-	-	2,005,000	317,813	2,050,000	167,600
2040	-	-	-	-	2,080,000	242,625	2,140,000	85,600
2041	-	-	-	-	2,155,000	164,625	-	-
2042	-	-	-	-	2,235,000	83,813	-	-
2043	-	-	-	-	-	-	-	-
2044	-	-	-	-	-	-	-	-
2045	-	-	-	-	-	-	-	-
2046	-	-	-	-	-	-	-	-
2047	-	-	-	-	-	-	-	-
	7,035,000	641,750	5,375,000	806,772	34,030,000	22,640,407	92,510,000	48,153,150
Less current portion	2,225,000	-	815,000	-	430,000	-	1,605,000	-
	$ 4,810,000	$ 641,750	$ 4,560,000	$ 806,772	$ 33,600,000	$ 22,640,407	$ 90,905,000	$ 48,153,150

ELECTRIC SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2017

	Revenue and Revenue Refunding 2016 B Series 9-7-16		Revenue 2017 9-21-17		Total Electric System Payments		
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2018	$ 3,295,000	$ 287,466	$ -	$ 1,455,063	$ 8,370,000	$ 7,915,523	$ 16,285,523
2019	3,545,000	253,001	-	1,689,750	8,445,000	7,927,893	16,372,893
2020	3,820,000	208,369	-	1,689,750	8,540,000	7,677,921	16,217,921
2021	4,130,000	151,604	-	1,689,750	6,745,000	7,432,356	14,177,356
2022	4,455,000	81,972	-	1,689,750	8,260,000	7,256,751	15,516,751
2023	-	-	-	1,689,750	9,095,000	7,015,067	16,110,067
2024	-	-	-	1,689,750	7,665,000	6,584,819	14,249,819
2025	-	-	-	1,689,750	7,960,000	6,211,969	14,171,969
2026	-	-	-	1,689,750	7,810,000	5,813,969	13,623,969
2027	-	-	945,000	1,689,750	8,140,000	5,423,469	13,563,469
2028	-	-	995,000	1,642,500	8,650,000	5,016,469	13,666,469
2029	-	-	1,045,000	1,592,750	8,975,000	4,583,969	13,558,969
2030	-	-	1,095,000	1,540,500	9,400,000	4,159,875	13,559,875
2031	-	-	1,150,000	1,485,750	9,840,000	3,713,675	13,553,675
2032	-	-	1,205,000	1,428,250	9,585,000	3,319,075	12,904,075
2033	-	-	1,270,000	1,368,000	7,940,000	2,934,463	10,874,463
2034	-	-	1,330,000	1,304,500	4,585,000	2,589,213	7,174,213
2035	-	-	1,400,000	1,238,000	4,805,000	2,376,813	7,181,813
2036	-	-	1,465,000	1,168,000	5,025,000	2,154,113	7,179,113
2037	-	-	1,540,000	1,094,750	5,255,000	1,921,163	7,176,163
2038	-	-	1,620,000	1,017,750	5,500,000	1,677,413	7,177,413
2039	-	-	1,700,000	936,750	5,755,000	1,422,163	7,177,163
2040	-	-	1,785,000	851,750	6,005,000	1,179,975	7,184,975
2041	-	-	1,875,000	762,500	4,030,000	927,125	4,957,125
2042	-	-	1,965,000	668,750	4,200,000	752,563	4,952,563
2043	-	-	2,065,000	570,500	2,065,000	570,500	2,635,500
2044	-	-	2,170,000	467,250	2,170,000	467,250	2,637,250
2045	-	-	2,275,000	358,750	2,275,000	358,750	2,633,750
2046	-	-	2,390,000	245,000	2,390,000	245,000	2,635,000
2047	-	-	2,510,000	125,500	2,510,000	125,500	2,635,500
	19,245,000	982,412	33,795,000	36,530,313	191,990,000	109,754,803	$ 301,744,803
Less current	3,295,000	-	-	-	8,370,000	-	8,370,000
	$ 15,950,000	$ 982,412	$ 33,795,000	$ 36,530,313	$ 183,620,000	$ 109,754,803	$ 293,374,803

WATER SYSTEM (Unaudited)
Long-term bonded debt and interest payment requirements, including current portion
Year ended December 31, 2017

	Revenue 2011 Series 6-29-11		Revenue and Revenue Refunding 2016 Series 5-19-16		Total Water System Payments		
	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2018	$ 445,000	$ 669,350	$ 1,715,000	$ 1,612,900	$ 2,160,000	$ 2,282,250	$ 4,442,250
2019	455,000	659,338	1,775,000	1,561,450	2,230,000	2,220,788	4,450,788
2020	470,000	647,963	1,855,000	1,490,450	2,325,000	2,138,413	4,463,413
2021	480,000	633,863	1,935,000	1,416,250	2,415,000	2,050,113	4,465,113
2022	495,000	619,463	2,030,000	1,319,500	2,525,000	1,938,963	4,463,963
2023	510,000	603,375	1,340,000	1,218,000	1,850,000	1,821,375	3,671,375
2024	530,000	585,525	1,415,000	1,151,000	1,945,000	1,736,525	3,681,525
2025	550,000	566,975	1,470,000	1,094,400	2,020,000	1,661,375	3,681,375
2026	570,000	546,350	1,530,000	1,035,600	2,100,000	1,581,950	3,681,950
2027	590,000	524,975	1,610,000	959,100	2,200,000	1,484,075	3,684,075
2028	610,000	501,375	1,690,000	878,600	2,300,000	1,379,975	3,679,975
2029	635,000	476,975	1,770,000	794,100	2,405,000	1,271,075	3,676,075
2030	660,000	451,575	1,860,000	705,600	2,520,000	1,157,175	3,677,175
2031	690,000	423,525	1,125,000	631,200	1,815,000	1,054,725	2,869,725
2032	720,000	394,200	1,175,000	586,200	1,895,000	980,400	2,875,400
2033	755,000	358,875	1,225,000	539,200	1,980,000	898,075	2,878,075
2034	795,000	321,975	1,270,000	490,200	2,065,000	812,175	2,877,175
2035	830,000	283,250	1,320,000	439,400	2,150,000	722,650	2,872,650
2036	875,000	241,750	1,375,000	386,600	2,250,000	628,350	2,878,350
2037	920,000	198,000	1,430,000	331,600	2,350,000	529,600	2,879,600
2038	965,000	152,000	1,485,000	274,400	2,450,000	426,400	2,876,400
2039	1,010,000	103,750	680,000	215,000	1,690,000	318,750	2,008,750
2040	1,065,000	53,250	710,000	187,800	1,775,000	241,050	2,016,050
2041	-	-	735,000	159,400	735,000	159,400	894,400
2042	-	-	765,000	130,000	765,000	130,000	895,000
2043	-	-	795,000	99,400	795,000	99,400	894,400
2044	-	-	830,000	67,600	830,000	67,600	897,600
2045	-	-	860,000	34,400	860,000	34,400	894,400
	15,625,000	10,017,677	37,775,000	19,809,350	53,400,000	29,827,027	83,227,027
Less current portion	445,000	-	1,715,000	-	2,160,000	-	2,160,000
	$ 15,180,000	$ 10,017,677	$ 36,060,000	$ 19,809,350	$ 51,240,000	$ 29,827,027	$ 81,067,027

ELECTRIC SYSTEM (Unaudited)
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2017

	Investments for Bond Principal & Interest	Debt Service Reserve	Construction Funds	Customer & Escrow Deposit Reserve	Total All Funds
Ending balance - December 31, 2016	$ 6,867,942	$ 6,462,450	$ 10,242,347	$ 3,851,807	$ 27,424,546
Deposits from general fund	11,113,230	-	-	289,192	11,402,422
Investment earnings	51,825	11,552	149,174	11,219	223,770
Other transfers	-	-	40,000,000	217,165	40,217,165
Receipts	11,165,055	11,552	40,149,174	517,576	51,843,357
Principal payments	9,175,000	-	-	-	9,175,000
Interest payments	6,816,162	-	-	-	6,816,162
Refunding of bonds	2,006,162	-	-		2,006,162
Transfers to general fund	3,635	-	5,278,126	115,081	5,396,842
Disbursements	18,000,959	-	5,278,126	115,081	23,394,166
U.S. securities, at market	-	-	34,147,170	2,371,435	36,518,605
Cash in bank	32,038	6,474,002	-	1,677,971	8,184,011
State of Oregon Local Government Investment Pool	-	-	10,966,225	204,896	11,171,121
Ending balance - December 31, 2017	$ 32,038	$ 6,474,002	$ 45,113,395	$ 4,254,302	$ 55,873,737

WATER SYSTEM (Unaudited)
Analysis of certain restricted cash and investments for debt service
Year ended December 31, 2017

	Investments for Bond Principal & Interest	Debt Service Reserves	SDC Reserves	Construction Funds	Total All Funds
Ending balance - December 31, 2016	$ 1,729,315	$ 2,334,808	$ 4,306,056	$ 11,192,213	$ 19,562,392
Deposits from general fund	2,425,238	-	1,052,265	-	3,477,503
Investment earnings	12,204	4,173	47,944	103,158	167,479
Receipts	2,437,442	4,173	1,100,209	103,158	3,644,982
Principal payments	1,840,000	-	-	-	1,840,000
Interest payments	2,319,050	-	-	-	2,319,050
Transfers to general fund	11	-	77,749	2,571,583	2,649,343
Disbursements	4,159,061	-	77,749	2,571,583	6,808,393
U.S. securities, at market	-	-	4,033,253	6,632,245	10,665,498
Cash in bank	7,696	2,338,981	-	-	2,346,677
State of Oregon Local Government Investment Pool	-	-	1,295,263	2,091,543	3,386,806
Ending balance - December 31, 2017	$ 7,696	$ 2,338,981	$ 5,328,516	$ 8,723,788	$ 16,398,981

The following metrics are standardized disclosures recommended by the Sustainability Accounting Standards Board for electric and water utilities. The disclosures are voluntary and are not meant to demonstrate compliance with laws or regulations.

Electric System

Topic	Metric	2017	2016
Greenhouse Gas Emissions & Energy Resource Planning	Number of customers served in markets subject to renewable portfolio standards (RPS). (All retail customers)	93,000	92,000
	RPS target before exemptions	378,936 MWh	354,265 MWh
	Percentage fulfillment of RPS target by market	Greater than 100%	Greater than 100%
Water Management	Number of incidents of non-compliance with water quality and/or quantity permits, standards, and regulations	None	None
Workforce Health & Safety	Total recordable injury rate	2.62	3.36
	Fatality rate	0	0
End-Use Efficiency	Customer electricity savings from efficiency measures (In total across all customer types)	8,715 MWh 2.6 MW reduction in peak demand	12,794 MWh 4.7 MW reduction in peak demand
Grid Resiliency	System Average Interruption Duration Index (SAIDI), per customer	52.85 minutes	64.01 minutes
	System Average Interruption Frequency Index (SAIFI), per customer	.36 outages	.51 outages
	Customer Average Interruption Duration Index (CAIDI), per outage	148.87 minutes	125.74 minutes

RPS compliance information above is preliminary. Final information is published to eweb.org annually by June 1.

Savings from efficiency measures are calculated based on the Regional Technical Forum of the Northwest Power and Conservation Council as adopted by Bonneville Power Administration for its regional resource acquisitions.

During December 2016, there was a significant ice storm affecting approximately 22,500 customers, requiring up to 8 days to restore service to some customers. Interruption results above are consistent with Institute of Electrical and Electronics Engineers (IEEE) standard 1336.2003, whereby 7 of the storm days were above the major event threshold and were excluded from the indices.

Water System

Topic	Metric	2017	2016
Water Scarcity	Total fresh water sourced from regions with high or extremely high baseline water stress	None	None
	Fresh water purchased from a third party	None	None
	Volume of recycled water delivered	None	None
Drinking Water Quality	Number of acute health-based, non-acute health-based, and non-health-based drinking water violations	None	None
Distribution Network Efficiency	Water pipe replacement rate	.2% of 805 miles or 1.8 miles	.2% of 804 miles or 1.7 miles
Network Resiliency & Impacts of Climate Change	Water treatment capacity located in FEMA Special Flood Hazard Areas	Treatment plant is outside of flood zone, intake is within	Treatment plant is outside of flood zone, intake is within
	Number of service disruptions, population affected, and average duration	279 1,349 customers 257 minutes	340 1,996 customers 134 minutes

Water pipe is distribution piper for potable water measuring 2 inches to 60 inches in diameter. Replacements do not include new construction. Total miles for these pipelines is all pipe including new construction.

Audit Comments

(Disclosures and comments required by state regulations)

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

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MOSSADAMS

Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Oregon Audit Standards*

Board of Commissioners
Eugene Water & Electric Board

We have audited the individual and combined financial statements of the Eugene Water & Electric Board (the "Board") as of and for the year ended December 31, 2017 and have issued our report thereon dated March 19, 2018. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance of which could have a direct and material effect on the determination of financial statement amounts.

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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to:

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets.
- 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.

In connection with our testing, we found the Board was not in compliance with the requirements of Oregon Revised Statute 295, *Depositories of Public Funds and Securities*. The results of testing indicated that the Board did not notify the State Treasurer in writing of new depositories utilized during the year within the required three day timeframe.

Other than the non-compliance described above, nothing came to our attention that caused us to believe the Board was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

Purpose of this Report

This report is intended solely for the information of the Board of Commissioners, management, and the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.

Julie Desimone

Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
March 19, 2018

Rely on us.

EWEB

Eugene Water & Electric Board
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