

**ENERGY TRUST OF OREGON, INC.**

Financial Statements  
For the Years Ended December 31, 2004 and 2003  
With Independent Auditors' Report

**ENERGY TRUST OF OREGON, INC.**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**  
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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Energy Trust of Oregon, Inc.

We have audited the accompanying statements of financial position of the Energy Trust of Oregon, Inc. as of December 31, 2004 and 2003, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Energy Trust of Oregon, Inc. as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Perkins & Company P.C.*

March 7, 2005

**ENERGY TRUST OF OREGON, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2004 AND 2003**

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 36,789,781	\$ 31,960,009
Restricted cash	475,000	-
Accrued interest receivable	71,823	26,247
Advances paid to contractor	1,036,494	1,265,103
Prepaid expenses	26,784	27,030
Property and equipment	606,492	632,507
Deposits	36,912	10,412
	<u>\$ 39,043,286</u>	<u>\$ 33,921,308</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 2,212,833	\$ 5,410,909
Accrued payroll and related expenses	182,153	128,881
	<u>2,394,986</u>	<u>5,539,790</u>
 <b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS:</b>		
Unrestricted - Available for programs and general operations	36,421,614	28,154,832
Temporarily restricted	226,686	226,686
Total net assets	<u>36,648,300</u>	<u>28,381,518</u>
	<u>\$ 39,043,286</u>	<u>\$ 33,921,308</u>

See notes to financial statements.

**ENERGY TRUST OF OREGON, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b><u>UNRESTRICTED NET ASSETS</u></b>		
<b>FUNDING:</b>		
Public purpose funding	\$ 50,642,826	\$ 47,092,779
Other income	-	119,030
Interest income	491,730	262,325
Total funding	<u>51,134,556</u>	<u>47,474,134</u>
<b>EXPENSES:</b>		
Program expenses:		
Energy efficiency	37,637,076	22,465,095
Renewable resources	2,767,623	5,791,941
Total program expenses	<u>40,404,699</u>	<u>28,257,036</u>
Administrative expenses:		
Management and general	1,904,348	1,290,244
Communication and outreach - general	558,727	639,277
Total administrative expenses	<u>2,463,075</u>	<u>1,929,521</u>
Total expenses	<u>42,867,774</u>	<u>30,186,557</u>
<b>INCREASE IN UNRESTRICTED NET ASSETS</b>	8,266,782	17,287,577
<b><u>TEMPORARILY RESTRICTED NET ASSETS</u></b>		
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>-</u>	<u>-</u>
<b>TOTAL INCREASE IN NET ASSETS</b>	8,266,782	17,287,577
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>28,381,518</u>	<u>11,093,941</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 36,648,300</u>	<u>\$ 28,381,518</u>

See notes to financial statements.

**ENERGY TRUST OF OREGON, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2004**

	Energy Efficiency	Renewable Resources	Total Program Expenses	Management and General	Communication and Outreach - General	Total Administrative Expenses	Total Expenses
<b>EXPENSES:</b>							
Incentives and program management	\$ 35,196,087	\$ 2,245,571	\$ 37,441,658	\$ -	\$ -	\$ -	\$ 37,441,658
Payroll and related expenses	884,427	352,544	1,236,971	909,563	211,299	1,120,862	2,357,833
Outsourced services	295,495	40,286	335,781	597,827	209,601	807,428	1,143,209
Customer service management	362,376	2,066	364,442	-	2,277	2,277	366,719
Supplies	13,969	4,897	18,866	11,626	4,670	16,296	35,162
Postage and shipping	4,637	1,776	6,413	3,302	4,248	7,550	13,963
Telephone	9,676	4,745	14,421	9,822	9,682	19,504	33,925
Printing and publications	20,129	5,881	26,010	2,249	17,527	19,776	45,786
Occupancy expenses	58,740	24,691	83,431	58,766	15,260	74,026	157,457
Insurance	5,381	2,262	7,643	29,354	1,398	30,752	38,395
Equipment	33,556	10,630	44,186	36,538	6,652	43,190	87,376
Travel	10,970	6,910	17,880	10,798	3,829	14,627	32,507
Meetings, trainings and conferences	19,599	6,708	26,307	23,354	6,396	29,750	56,057
Interest expense and bank fees	-	-	-	34,222	-	34,222	34,222
Depreciation and amortization	15,915	6,690	22,605	15,923	4,135	20,058	42,663
Dues, licenses and fees	17,112	857	17,969	8,931	5,871	14,802	32,771
Miscellaneous expenses	4,776	849	5,625	2,234	61	2,295	7,920
Trade allies	35,016	2,999	38,015	-	-	-	38,015
IT services	649,215	47,261	696,476	149,839	55,821	205,660	902,136
<b>Total expenses</b>	<b>\$ 37,637,076</b>	<b>\$ 2,767,623</b>	<b>\$ 40,404,699</b>	<b>\$ 1,904,348</b>	<b>\$ 558,727</b>	<b>\$ 2,463,075</b>	<b>\$ 42,867,774</b>

See notes to financial statements.

**ENERGY TRUST OF OREGON, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2003**

	Energy Efficiency	Renewable Resources	Total Program Expenses	Management and General	Communication and Outreach - General	Total Administrative Expenses	Total Expenses
<b>EXPENSES:</b>							
Incentives and program management	\$ 20,774,384	\$ 5,128,751	\$ 25,903,135	\$ -	\$ -	\$ -	\$ 25,903,135
Payroll and related expenses	759,480	307,486	1,066,966	764,736	178,406	943,142	2,010,108
Outsourced services	617,837	223,169	841,006	317,649	380,200	697,849	1,538,855
Supplies	12,135	4,937	17,072	15,685	2,945	18,630	35,702
Postage and shipping	1,742	2,207	3,949	2,027	382	2,409	6,358
Telephone	9,243	4,033	13,276	9,028	2,827	11,855	25,131
Printing and publications	13,937	6,230	20,167	1,429	20,017	21,446	41,613
Occupancy expenses	45,261	18,060	63,321	42,684	10,974	53,658	116,979
Insurance	11,357	4,532	15,889	10,578	2,754	13,332	29,221
Equipment	28,660	11,308	39,968	37,245	6,871	44,116	84,084
Travel	6,923	12,403	19,326	10,057	1,736	11,793	31,119
Call center	135,452	17,865	153,317	-	20,830	20,830	174,147
Meetings, trainings and conferences	13,576	5,210	18,786	26,722	3,855	30,577	49,363
Interest expense and bank fees	782	312	1,094	29,826	190	30,016	31,110
Depreciation and amortization	18,142	7,239	25,381	16,898	4,399	21,297	46,678
Dues, licenses and fees	15,742	38,023	53,765	5,269	2,784	8,053	61,818
Miscellaneous expenses	442	176	618	411	107	518	1,136
<b>Total expenses</b>	<b>\$ 22,465,095</b>	<b>\$ 5,791,941</b>	<b>\$ 28,257,036</b>	<b>\$ 1,290,244</b>	<b>\$ 639,277</b>	<b>\$ 1,929,521</b>	<b>\$ 30,186,557</b>

See notes to financial statements.

**ENERGY TRUST OF OREGON, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received in public purpose funding	\$ 50,642,826	\$ 47,092,779
Cash received from other sources	-	119,030
Interest received	446,154	250,475
Cash paid to contractors, suppliers, and employees	<u>(46,072,973)</u>	<u>(30,369,415)</u>
Net cash provided by operating activities	5,016,007	17,092,869
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	<u>(186,235)</u>	<u>(495,912)</u>
Net cash used in investing activities	<u>(186,235)</u>	<u>(495,912)</u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 4,829,772	 16,596,957
 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	 <u>31,960,009</u>	 <u>15,363,052</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	 <u><u>\$ 36,789,781</u></u>	 <u><u>\$ 31,960,009</u></u>
 <b>RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 8,266,782	\$ 17,287,577
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	212,250	46,678
Net changes in:		
Restricted cash	(475,000)	-
Accrued interest receivable	(45,576)	(11,850)
Advances paid to contractor	228,609	(1,184,062)
Prepaid expenses	246	(12,642)
Deposits	(26,500)	-
Accounts payable and accrued expenses	(3,198,076)	902,900
Accrued payroll and related expenses	53,272	64,268
	<u>(3,250,775)</u>	<u>(194,708)</u>
Net cash provided by operating activities	<u><u>\$ 5,016,007</u></u>	<u><u>\$ 17,092,869</u></u>

See notes to financial statements.



**ENERGY TRUST OF OREGON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004 AND 2003**

**NOTE 1 - ORGANIZATION**

The Energy Trust of Oregon, Inc. (the Energy Trust) is a nonprofit organization mandated to invest “public purpose funding” for energy efficiency and renewable energy resources in Oregon. The mandate emerged from 1999 energy restructuring legislation (Oregon Senate Bill 1149) that included a surcharge for public purpose investment on the funds collected in Oregon. Subsequent action by the Oregon Public Utility Commission encouraged the start-up of the Energy Trust, a new nonprofit organization to administer the energy efficiency and renewable resource portions of these funds.

The Energy Trust is a party to a grant agreement with the Oregon Public Utility Commission that controls the manner in which the Energy Trust receives and expends funds for the statutory purposes and in conformity with the requirement and intent of Oregon Senate Bill 1149. The agreement was effective March 1, 2002, for a term of three years from the effective date, with provisions for an automatic extension for one additional year on each anniversary of the effective date through 2012.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of Presentation** - The Energy Trust is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Energy Trust had no permanently restricted net assets as of December 31, 2004 and 2003.

**Concentrations of Credit Risk** - The Energy Trust’s cash and cash equivalents consist of money market funds and cash accounts. These financial instruments may subject the organization to concentrations of credit risk as, from time to time, balances may exceed amounts insured by the Federal Deposit Insurance Corporation; the market value of securities are dependent on the ability of the issuer to honor its contractual commitments; and the investments may be subject to changes in market values. However, the Energy Trust strictly limits the banking institutions holding its funds to large money center banks and considers the attendant risks to be minimal.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less. Cash and cash equivalents consist of the following at December 31:

	2004	2003
Cash	\$ 222,425	\$ 151,170
Money market instruments	36,567,356	31,808,839
	\$ 36,789,781	\$ 31,960,009

The balance of cash and cash equivalents at December 31, 2004 includes \$6,600,000 designated by the Energy Trust for use on a specific project.

**Restricted Cash** - The Energy Trust is required to maintain funds in restricted accounts under certain program agreements. The Energy Trust has money market instruments with a value of \$475,000 and \$0 at December 31, 2004 and 2003, respectively, held in an escrow account for the benefit of program recipients, as contractually required.

**Property and Equipment** - Property and equipment is stated at cost less accumulated depreciation. Donations of property and equipment are recorded as contributions at their estimated fair value. Property and equipment is depreciated using the straight-line method over their estimated useful lives, which is generally three to five years. It is the Energy Trust's policy to capitalize property and equipment over \$2,500. Lesser amounts are expensed.

**Revenue Recognition** - All contributions are considered available for unrestricted use unless specifically restricted by the donor. Public purpose funding is recognized when funds are received from the funding source. Other service revenues are recognized at the time services are provided and the revenues are earned.

**Income Taxes** - The Energy Trust is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law.

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

### NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2004	2003
Computer equipment and software	\$ 692,689	\$ 527,048
Leasehold improvements	105,499	88,460
Office equipment and furniture	82,722	79,167
	<u>880,910</u>	<u>694,675</u>
Less accumulated depreciation	274,418	62,168
	<u>\$ 606,492</u>	<u>\$ 632,507</u>

### NOTE 4 - LINE OF CREDIT

At December 31, 2004 and 2003, the Energy Trust has available an unsecured line of credit in the amount of \$1,000,000. Interest is at the prime rate less 0.25%. The prime rate was 5.25% at December 31, 2004. The line matures on June 1, 2005. As of December 31, 2004 and 2003, no borrowings were outstanding under the line of credit.

## NOTE 5 - PUBLIC PURPOSE FUNDING

Public purpose funding received is as follows for the years ending December 31:

	<u>2004</u>	<u>2003</u>
Portland General Electric:		
Energy efficiency	\$ 20,542,914	\$ 19,928,083
Renewable resources	6,230,939	6,296,740
	<u>26,773,853</u>	<u>26,224,823</u>
PacifiCorp:		
Energy efficiency	13,346,771	13,441,853
Renewable resources	4,137,189	4,123,336
	<u>17,483,960</u>	<u>17,565,189</u>
Northwest Natural:		
Energy efficiency	6,385,013	3,302,767
	<u>6,385,013</u>	<u>3,302,767</u>
	<u>\$ 50,642,826</u>	<u>\$ 47,092,779</u>

## NOTE 6 - OPERATING LEASE COMMITMENTS

The Energy Trust leases its administrative offices under operating lease agreements which expire in December 2011. The Energy Trust also leases various office equipment under operating lease agreements. At December 31, 2004, the aggregate annual commitments under the terms of these leases are payable as follows:

Years ending December 31,

2005	\$ 303,065
2006	345,442
2007	390,121
2008	318,542
2009	327,858
Thereafter	684,789
	<u>\$ 2,369,817</u>

Rent expense for the years ended December 31, 2004 and 2003 was \$143,778 and \$106,316, respectively.

Beginning in February 2005, the Energy Trust began subleasing its former office space. The future minimum sublease rental income consists of the following as of December 31, 2004:

Years ending December 31,

2005	\$ 55,000
2006	62,750
2007	43,750
	<u>\$ 161,500</u>

#### **NOTE 7 - RETIREMENT PLAN**

The Energy Trust provides all employees with a qualified profit sharing retirement plan as described under Section 401(k) of the Internal Revenue Code. Generally, employees who have completed at least three consecutive months of work may elect to make voluntary contributions to the plan on a pre-tax basis, up to the limits allowed by law. Employees select from various investment options. On a discretionary basis, as determined annually by the Board of Directors, the Energy Trust may make matching contributions to the plan. For each of the years ended December 31, 2004 and 2003, the organization contributed to the plan an amount equal to 6.0% of the compensation earned by each eligible employee during the period. Employees are immediately vested in all contributions to the plan. Retirement plan expense recorded by the Energy Trust was \$96,047 and \$88,037 for the years ended December 31, 2004 and 2003, respectively.

#### **NOTE 8 - CONTRACTUAL COMMITMENTS**

The Energy Trust enters into contract commitments for various energy efficiency and renewable resource programs. As of December 31, 2004, \$75,965,255 is expected to be paid in future periods.