

Report of Independent Auditors
and Financial Statements for

Energy Trust of Oregon, Inc.

December 31, 2015 and 2014

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Energy Trust of Oregon, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Energy Trust of Oregon, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, 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 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 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 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.

REPORT OF INDEPENDENT AUDITORS
(continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Energy Trust of Oregon, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Management's discussion and analysis on pages 3 to 8 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Moss Adams LLP

Portland, Oregon
March 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

ENERGY TRUST OF OREGON, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The following narrative overview and analysis of Energy Trust of Oregon, Inc.'s financial activities is provided for readers of our annual financial statements. This discussion has been prepared by management and should be read in conjunction with the organization's financial statements and notes. Although the primary focus of this document is the results of activity for the calendar year ended December 31, 2015, comparative data is also presented for previous years as a reference point. We offer this supplemental information to illustrate issues and trends related to Energy Trust's financial health. The financial statements, notes and this discussion are the responsibility of management.

Financial Highlights

- Energy Trust's assets exceeded its liabilities at December 31, 2015, by \$68.2 million (net assets). All of this is unrestricted. Energy Trust entered into contractual commitments for various energy efficiency and renewable generation project incentives that will result in future year payments not accrued as liabilities in these financial statements. As of December 31, 2015, these commitments are estimated at \$80 million.
- During 2015, Energy Trust's total net position decreased by \$19.0 million. Following are some significant financial highlights accounting for the decrease from the prior year.
 - Total revenue of \$146.4 million was almost identical to the amount budgeted, and down from the prior year by \$17.2 million, or 10.5%. Energy Trust's energy efficiency revenues are established annually in collaboration with its affiliated investor-owned utilities and the Oregon Public Utility Commission in an amount deemed necessary to acquire all cost-effective energy efficiency and conservation. Renewable generation revenues are fixed as a percentage of each electric utility's revenue. Revenue estimates are provided by utilities and are relatively predictable, although weather and other changes in energy consumption do cause some variability. In coordination with utilities, energy efficiency collection rates were adjusted down modestly in 2015 to lower overall collections and intentionally draw down reserves from prior year levels.
 - Operating expenses increased by \$11.1 million or 7.2 percent from 2014. Total expenses of \$165.4 million were within \$4.5 million (-2.6%) of the total amount budgeted of \$169.9 million. The increase in total spending was almost exclusively tied to energy conservation and renewable generation incentive payments which rose by \$10.6 million. All other operating costs were essentially flat and increased \$0.5 million, or under 1%.
- Energy Trust exceeded electric and gas efficiency savings goals in Oregon, fell short of the gas savings goal in Southwest Washington, and exceeded goals for renewable energy generation. Electric efficiency savings totaled 54.1 average megawatts (aMW), achieving 101.8% of the 2015 goal of 53.1 aMW. Natural gas savings totaled 6.5 million annual therms of gas, achieving 116.1% of the 2015 goal of 5.6 million annual therms. Some of the ways we achieved these savings include:

ENERGY TRUST OF OREGON, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- We processed over 108,000 customer transactions. This is a 9% increase over 2014 and is the highest volume of customer transactions through our IT systems in a single year.
- We completed the most ever commercial projects – approximately 7,200.
- We completed our largest ever industrial project for gas savings, which helped that sector achieve 191% of its gas goal.
- Lighting was in strong demand across all sectors. We installed 4.1 million bulbs in the Residential Products program alone. LED demand continues to grow in all sectors.
- We achieved 129% of the solar generation goal. Demand for solar increased as equipment prices dropped, and we were able to complete 1,800 installations, which is 500 more than last year.

Energy Goals					
	2015	2015 goal	compared to goal	2014*	Change '14 to '15
Efficiency electric savings (aMW)	54.1	53.1	1.0	59.2	(5.1)
Renewable Resources electric generation (aMW)	3.9	5.6	(1.7)	2.4	1.5
Oregon Gas (million therms)	6.5	5.6	0.9	5.5	1.0
Washington Gas (million therms)	0.2	0.3	(0.1)	0.3	(0.1)

* after true-up

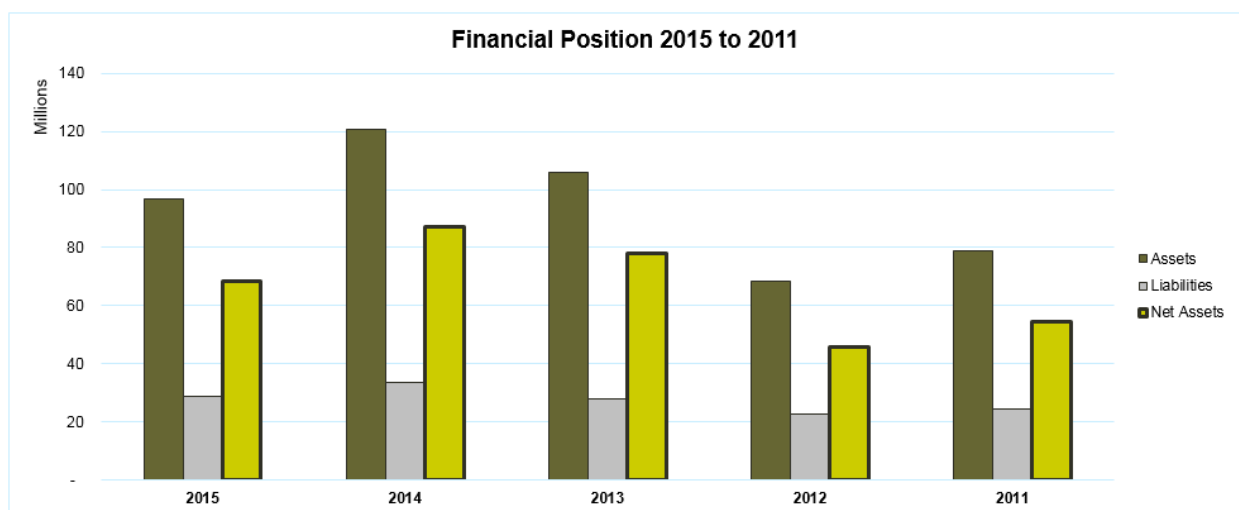
ENERGY TRUST OF OREGON, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

This discussion and analysis is intended to serve as an overview of Energy Trust's financial statements. The financial statements consist of the following:

The *statements of financial position* show the various assets owned or controlled, related liabilities and other obligations, and the various categories of net position. As noted earlier, net assets may serve over time as a useful indicator of Energy Trust's financial position. Energy Trust assets exceeded liabilities by \$68.2 million at year end. Almost all Energy Trust assets are held in cash and investments; capital and other assets comprise around 6% of the total. Liabilities are centered in accounts payable, and reflect primarily year-end incentive payments. Energy Trust carries no long term debt.

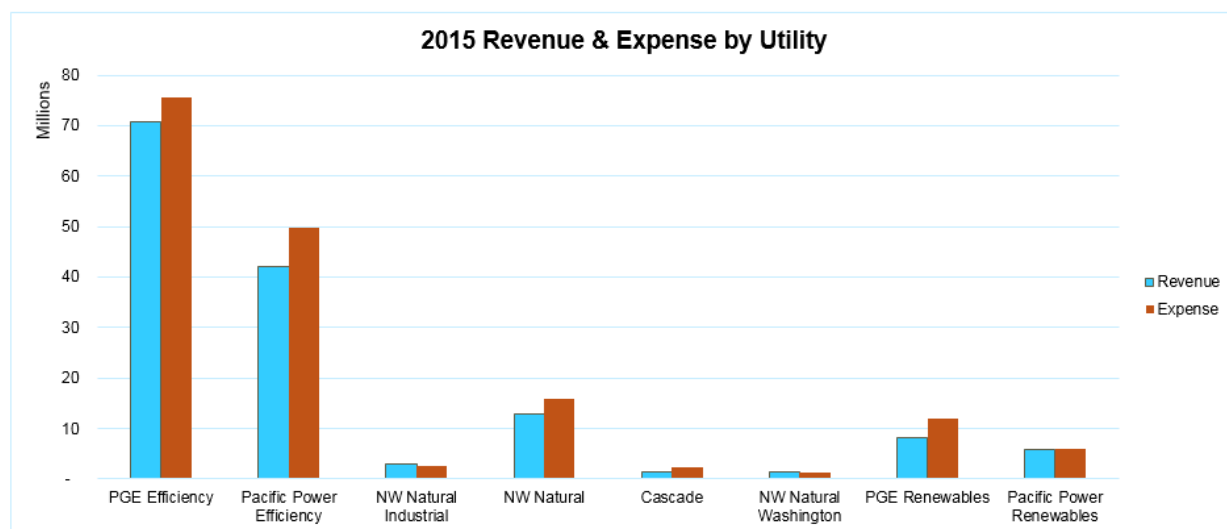
Statement of Financial Position (in millions of dollars)					
	2015	2014	Change '14 to '15	2013	Change '13 to '14
Cash & Investments	\$ 91.1	\$ 115.9	\$ (24.8)	\$ 101.7	\$ 14.2
Restricted Cash	-	-	-	0.1	(0.1)
All other Assets	5.8	4.9	0.9	4.0	0.9
Total Assets	96.9	120.8	(23.9)	105.8	15.0
Total Liabilities	28.7	33.6	(4.9)	27.9	5.7
Board Designated Net Assets	-	-	-	0.1	(0.1)
Assets Available for Programs & Operations	68.2	87.2	(19.0)	77.8	9.4
Total Liabilities & Net Assets	\$ 96.9	\$ 120.8	\$ (23.9)	\$ 105.8	\$ 15.0



ENERGY TRUST OF OREGON, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statements of activities* show the various revenues and expenses, reconciling the beginning net assets to the end of year total. These statements show how Energy Trust's net assets changed during the year. As planned, we were able to draw down net assets (reserves) from prior year levels by \$19.0 million. Actual revenues and expenditures were very close to budgeted amounts.

Statements of Activities (in millions of dollars)		2015	2014	Change '14 to '15	2013	Change '13 to '14
Public Purpose Funding		\$ 82.8	\$ 88.9	\$ (6.1)	\$ 88.0	\$ 0.9
Incremental Funding		63.1	74.5	(11.4)	74.5	0.0
Other Income		0.5	0.2	0.3	0.1	0.1
Total Funding		146.4	163.6	(17.2)	162.6	1.0
Program Expenses		159.9	149.2	10.7	126.0	23.2
Administrative Expenses		5.5	5.1	0.4	4.3	0.8
Total Expenses		165.4	154.3	11.1	130.3	24.0
Increase (Decrease) in Net Assets		\$ (19.0)	\$ 9.3	\$ (28.3)	\$ 32.3	\$ (23.0)

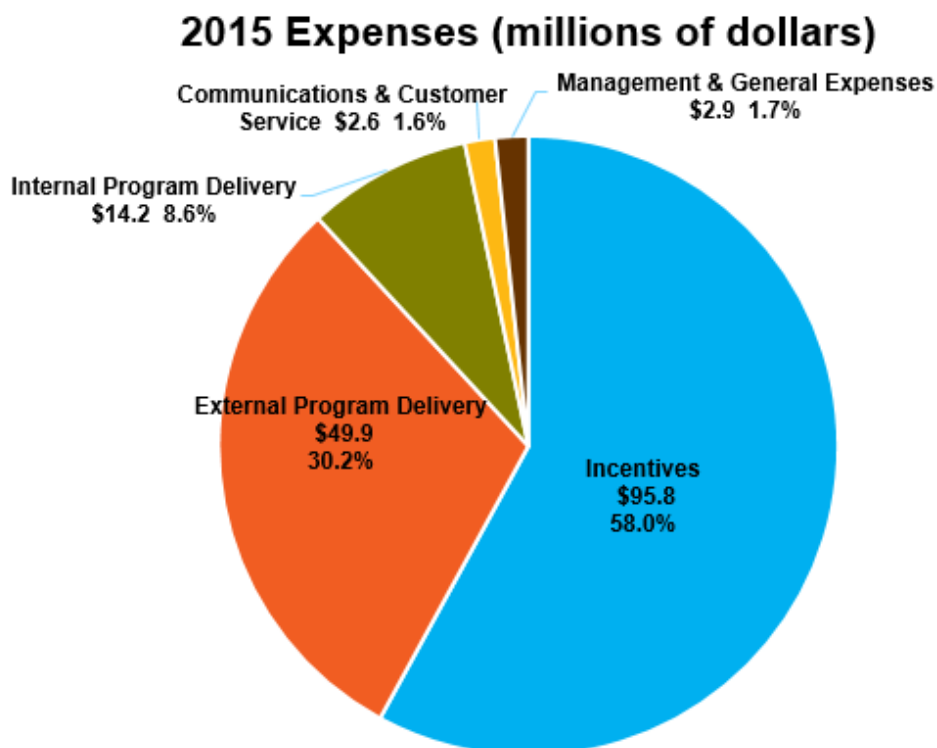


ENERGY TRUST OF OREGON, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of functional expenses* shows costs by major category organized into program and administrative categories. In 2015, program expenses comprised 96.7% of total costs; administrative expenses of 3.3% made up the remainder. This composition is consistent with the prior year.

Statement of Functional Expenses (in millions of dollars)	2015	2014	Change '14 to '15	2013	Change '13 to '14
Energy Efficiency	\$ 142.7	\$ 136.1	\$ 6.6	\$ 118.1	\$ 18.0
Renewable Resources	17.2	13.1	4.1	7.9	5.2
Program Expenses	159.9	149.2	10.7	126.0	23.2
Management & General	2.9	2.7	0.2	2.6	0.1
Communications & Outreach	2.6	2.4	0.2	1.7	0.7
Administrative Expenses	5.5	5.1	0.4	4.3	0.8
Total Expenses	\$ 165.4	\$ 154.2	\$ 11.1	\$ 130.3	\$ 0.8

Actual expenses increased in all categories as overall spending rose 7.2% from \$154.3 million to \$165.4 million. However, the percentage breakdown among functions remained relatively consistent. Incentives as a percent of total spending increased from 55% to 58%; external program delivery costs declined from 32% to 30%. The percentage of spending in all other categories was down slightly from 12.4% to 11.9% of the total.



ENERGY TRUST OF OREGON, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of cash flows* shows various cash activities by type, reconciling beginning cash and cash equivalents to the ending cash and cash equivalents amount, which is shown in the Statements of Financial Position. Energy Trust cash receipts come primarily from public purpose and supplemental funding, derived from a small percentage charge on utility customer bills. Outflows are predominantly payments for incentives and program contracts, as well as payments for payroll, outsourced services, IT, and other operating expenses. Outflows also include investment purchases. Overall, cash receipts were less than cash payments for the year, and cash and cash equivalents decreased by \$24.2 million in 2015. The decrease is largely due to cash used in operating activities and related drawdown in fund reserves.

Statement of Cash Flows					
(in millions of dollars)					
	2015	2014	Change '14 to '15	2013	Change '13 to '14
Net Cash from operating activities	\$ (23.1)	\$ 16.1	\$ (39.2)	\$ 37.5	\$ (21.4)
Net Cash used for capital assets	(1.0)	(1.4)	0.4	-	-
Net Cash from investing activities	(0.1)	(39.8)	39.7	(25.0)	(14.8)
(Decrease) Increase in Cash	(24.2)	(25.1)	0.9	12.5	(37.6)
Cash Beginning of Year	51.4	76.5	(25.1)	64.0	12.5
Cash End of Year	<u>\$ 27.2</u>	<u>\$ 51.4</u>	<u>\$ (24.2)</u>	<u>\$ 76.5</u>	<u>\$ (25.1)</u>

Key Economic Factors and Budget Information for Next Year

The economy in Oregon continues to improve, unemployment is low, and the population is growing. Due to these and other factors, construction of new commercial buildings and residential homes increased considerably in 2015. We expect to see continued expansion in 2016.

The 2016 budget anticipates revenue of \$154.7 million, and expenditures of \$189 million, continuing the multi-year plan of spending down accumulated net assets, and ending the year with program reserves closer to the targeted 2% to 5%.

Requests for Information

This financial report is designed to provide a general overview of Energy Trust of Oregon, Inc's finances for all those with an interest in the non-profit organization's financial results. Questions concerning any of the information provided in this report should be directed to the following:

Energy Trust of Oregon
421 SW Oak, Suite 300
Portland, Oregon 97204
www.energytrust.org
Attention: Pati Presnail, Interim CFO

FINANCIAL STATEMENTS

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2015	2014
Cash and cash equivalents	\$ 27,186,506	\$ 51,411,365
Investments	63,884,186	64,490,244
Other receivables	66,702	35,292
Notes receivable, net of allowance	85,609	86,789
Accrued interest receivable	307,913	288,238
Advances paid to contractor	2,049,018	1,482,149
Prepaid expenses	479,349	405,430
Property and equipment, net	2,008,447	1,846,427
Other assets	857,321	765,516
	\$ 96,925,051	\$ 120,811,450

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 26,913,992	\$ 31,929,270
Accrued payroll and related expenses	1,463,292	1,305,368
Deferred rent liability	314,472	349,692
	28,691,756	33,584,330

COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted	68,233,295	87,227,120
	68,233,295	87,227,120
	\$ 96,925,051	\$ 120,811,450

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF ACTIVITIES

	Years Ended December 31,	
	2015	2014
Funding		
Public purpose funding	\$ 82,786,607	\$ 88,889,205
Incremental funding	63,057,250	74,514,179
Contribution revenue	1,550	13,400
Total funding	<u>145,845,407</u>	<u>163,416,784</u>
Investment returns		
Interest and dividends on investments, net of amortization	534,173	269,922
Interest on notes receivable	1,000	514
Unrealized gain (loss) on investments	16,358	(90,740)
Total investment returns	<u>551,531</u>	<u>179,696</u>
Total revenues	<u>146,396,938</u>	<u>163,596,480</u>
Expenses		
Program expenses		
Energy efficiency	142,662,351	136,063,489
Renewable resources	17,266,025	13,094,590
Total program expenses	<u>159,928,376</u>	<u>149,158,079</u>
Administrative expenses		
Management and general	2,861,485	2,684,052
Communication and outreach - general	2,600,902	2,457,800
Total administrative expenses	<u>5,462,387</u>	<u>5,141,852</u>
Total expenses	<u>165,390,763</u>	<u>154,299,931</u>
(DECREASE) INCREASE IN NET ASSETS	(18,993,825)	9,296,549
NET ASSETS, beginning of year	<u>87,227,120</u>	<u>77,930,571</u>
NET ASSETS, end of year	<u>\$ 68,233,295</u>	<u>\$ 87,227,120</u>

ENERGY TRUST OF OREGON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Energy Efficiency	Renewable Resources	Total Program Expenses	Management and General	Communication and Outreach - General	Total Administrative Expenses	Total Expenses
EXPENSES							
Incentives	\$ 81,385,440	\$ 14,404,032	\$ 95,789,472	\$ -	\$ -	\$ -	\$ 95,789,472
Program management	49,436,515	434,437	49,870,952	-	-	-	49,870,952
Payroll and related expenses	2,999,116	916,972	3,916,088	2,041,291	1,209,638	3,250,929	7,167,017
Outsourced services	3,867,883	981,317	4,849,200	211,437	931,073	1,142,510	5,991,710
Planning and evaluation	2,003,932	66,610	2,070,542	1,480	-	1,480	2,072,022
Customer service management	576,955	37,575	614,530	-	-	-	614,530
Trade Allies Network	301,668	20,531	322,199	-	-	-	322,199
Supplies	8,856	3,216	12,072	8,292	4,012	12,304	24,376
Postage and shipping	2,400	2,707	5,107	3,179	1,004	4,183	9,290
Telephone	2,683	888	3,571	1,607	1,242	2,849	6,420
Printing and publications	43,292	1,612	44,904	5,767	4,713	10,480	55,384
Occupancy expenses	185,894	61,533	247,427	111,372	77,787	189,159	436,586
Insurance	29,912	9,901	39,813	17,921	12,516	30,437	70,250
Equipment	6,903	58,153	65,056	4,136	2,889	7,025	72,081
Travel	27,398	15,298	42,696	26,852	53,374	80,226	122,922
Meetings, trainings, and conferences	26,194	15,414	41,608	42,722	13,595	56,317	97,925
Bank fees	-	-	-	1,887	-	1,887	1,887
Depreciation	50,253	16,634	66,887	30,107	21,029	51,136	118,023
Dues, licenses, and fees	67,257	9,430	76,687	(4,156)	21,896	17,740	94,427
Miscellaneous	50,992	176	51,168	157	101	258	51,426
IT services	1,588,808	209,589	1,798,397	357,434	246,033	603,467	2,401,864
Total expenses	<u>\$ 142,662,351</u>	<u>\$ 17,266,025</u>	<u>\$ 159,928,376</u>	<u>\$ 2,861,485</u>	<u>\$ 2,600,902</u>	<u>\$ 5,462,387</u>	<u>\$ 165,390,763</u>

ENERGY TRUST OF OREGON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Energy Efficiency	Renewable Resources	Total Program Expenses	Management and General	Communication and Outreach - General	Total Administrative Expenses	Total Expenses
EXPENSES							
Incentives	\$ 74,218,412	\$ 10,958,831	\$ 85,177,243	\$ -	\$ -	\$ -	\$ 85,177,243
Program management	49,774,172	215,839	49,990,011	-	-	-	49,990,011
Payroll and related expenses	3,036,838	944,823	3,981,661	1,905,242	968,157	2,873,399	6,855,060
Outsourced services	3,812,372	431,269	4,243,641	227,953	1,133,504	1,361,457	5,605,098
Planning and evaluation	2,320,876	80,005	2,400,881	1,682	-	1,682	2,402,563
Customer service management	601,931	28,631	630,562	-	-	-	630,562
Trade Allies Network	351,892	23,961	375,853	-	-	-	375,853
Supplies	10,313	3,109	13,422	8,610	3,780	12,390	25,812
Postage and shipping	4,143	1,323	5,466	1,764	1,017	2,781	8,247
Telephone	2,608	894	3,502	1,702	1,166	2,868	6,370
Printing and publications	97,937	4,891	102,828	1,213	8,470	9,683	112,511
Occupancy expenses	190,356	65,237	255,593	111,043	64,660	175,703	431,296
Insurance	30,121	10,323	40,444	17,571	10,232	27,803	68,247
Equipment	15,139	74,863	90,002	7,396	4,307	11,703	101,705
Travel	40,271	21,281	61,552	27,402	34,232	61,634	123,186
Meetings, trainings, and conferences	55,859	20,586	76,445	46,100	11,612	57,712	134,157
Bank fees	-	-	-	2,000	-	2,000	2,000
Depreciation	47,719	16,354	64,073	27,837	16,209	44,046	108,119
Dues, licenses, and fees	63,824	17,023	80,847	8,969	6,145	15,114	95,961
Miscellaneous	16,659	-	16,659	-	-	-	16,659
IT services	1,372,047	175,347	1,547,394	287,568	194,309	481,877	2,029,271
Total expenses	\$ 136,063,489	\$ 13,094,590	\$ 149,158,079	\$ 2,684,052	\$ 2,457,800	\$ 5,141,852	\$ 154,299,931

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received in public purpose funding	\$ 82,786,607	\$ 88,889,205
Cash received in incremental funding	63,057,250	74,514,179
Interest received	1,252,221	437,292
Cash received from other sources	1,550	13,400
Cash paid to contractors, suppliers, and employees	<u>(170,205,614)</u>	<u>(147,742,125)</u>
Net cash from operating activities	<u>(23,107,986)</u>	<u>16,111,951</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,002,566)	(1,401,746)
Purchases of investments	(48,834,342)	(71,109,817)
Sales and maturities of investments	48,720,035	31,348,351
Issuance of notes receivable	-	(100,000)
Decrease in restricted cash and cash equivalents	<u>-</u>	<u>77,988</u>
Net cash from investing activities	<u>(1,116,873)</u>	<u>(41,185,224)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(24,224,859)	(25,073,273)
CASH AND CASH EQUIVALENTS, beginning of year	<u>51,411,365</u>	<u>76,484,638</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 27,186,506</u>	<u>\$ 51,411,365</u>
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (18,993,825)	\$ 9,296,549
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	840,546	370,787
Change in notes receivable allowance	1,180	13,211
Unrealized (gain) loss on investments	(16,358)	90,740
Amortization of bond premium	736,723	450,845
Net changes in:		
Other receivables	(31,410)	(31,265)
Accrued interest receivable	(19,675)	(283,989)
Advances paid to contractor	(566,869)	533,271
Prepaid expenses	(73,919)	120,657
Other assets	(91,805)	(151,414)
Accounts payable and accrued expenses	(5,015,278)	5,595,932
Accrued payroll and related expenses	157,924	121,179
Deferred rent liability	<u>(35,220)</u>	<u>(14,552)</u>
Net cash from operating activities	<u>\$ (23,107,986)</u>	<u>\$ 16,111,951</u>

See accompanying notes.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

Energy Trust of Oregon, Inc. (Energy Trust), a nonprofit 501(c)(3) organization, began collecting public purpose revenues in March 2002. By the terms of its grant agreement with the Oregon Public Utility Commission (OPUC), it is charged with investing in cost-effective energy conservation, funding above-market costs of small scale renewable energy resources and encouraging energy efficiency market transformation efforts in Oregon.

All Energy Trust funds originally came from a 1999 energy restructuring law, which required Oregon's two largest investor-owned utilities to collect a three percent public purpose charge from their customers. A portion of that charge is transferred to Energy Trust, and the remainder is dedicated to energy conservation efforts in low-income housing and K-12 schools, as well as low-income housing improvements. The sunset date for collection of the public purpose charge is 2026.

The law authorized the OPUC to direct a majority of these public purpose funds to a non-governmental entity for investment. Energy Trust was created for this sole purpose. In November 2001, Energy Trust entered into a grant agreement with the OPUC to guide Energy Trust's electric energy work. The grant agreement was developed with extensive input from key stakeholders and interested parties, and it has been amended several times since 2001. The agreement is reviewed annually by the OPUC and is automatically extended annually for an additional three years unless Energy Trust or the OPUC give notice otherwise.

In 2007, the Oregon State Legislature passed Senate Bill 838 (OSB 838) and it was signed by the governor, which allowed electric utilities to request an increase in rates to pursue additional energy conservation opportunities. In 2008, PacifiCorp and Portland General Electric elected to send funds related to OSB 838 to Energy Trust to pursue energy conservation opportunities for retail electricity purchasers of less than one average megawatt. This precludes Energy Trust from providing services with this funding to some larger commercial and industrial customers. These funds are reported separately in the statement of activities as "incremental funding." The funds received from PacifiCorp and Portland General Electric may be used for conservation efforts in addition to activity funded by the public purpose funds.

In addition to its work under the 1999 energy restructuring law, Energy Trust administers natural gas conservation programs for residential and commercial customers of NW Natural. Under the terms of the 2003 agreement with the OPUC, NW Natural collects and transfers to Energy Trust a surcharge of the total monthly amount billed to non-industrial customers. Energy Trust uses these funds for energy efficiency efforts to benefit NW Natural's Oregon residential and commercial customers. In 2009, Energy Trust began administering energy efficiency programs for qualified industrial customers of NW Natural.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization (continued)

In 2006, Energy Trust began administering natural gas conservation programs for residential and commercial customers of Cascade Natural Gas Corporation (Cascade) under public purpose agreements. Each agreement provides for a different methodology for determining the amount of funds to be provided to Energy Trust.

In 2009, Energy Trust entered into a Washington Customer’s Public Purpose Funds Transfer Agreement with NW Natural. Under the terms of the agreement, NW Natural agrees to transfer funds (Washington Funds) and customer information to Energy Trust to design and administer cost-effective energy efficiency programs for existing homes and businesses to NW Natural customers in Washington. In 2010, the agreement was amended to include similar programs for builders constructing new homes in NW Natural’s Washington service territory. The agreement expires on February 28, 2017.

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 – Energy Trust is required to report information regarding its financial position and activities according to three classes of net assets under generally accepted accounting principles:

- **Unrestricted** – Net assets that are not subject to donor stipulations.
- **Temporarily restricted** – Net assets subject to donor imposed stipulations that may or will be met, either by actions of Energy Trust and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets at December 31, 2015 or 2014.
- **Permanently restricted** – Net assets subject to donor imposed stipulations which must be maintained permanently by Energy Trust. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2015 or 2014.

Concentrations of credit risk – Energy Trust’s cash and cash equivalents may subject Energy Trust to concentrations of credit risk, as the fair value of securities is dependent on the ability of the issuer to honor its contractual commitments. Energy Trust’s non-interest bearing cash balances may exceed federally insured limits. Energy Trust has not experienced any losses in such accounts to date.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – For purposes of financial statement classification, Energy Trust considers all unrestricted, highly-liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Investments – Holdings consist of fixed income investments, certificates of deposit, commercial paper, and U.S. government issues. The fixed income funds and certificates of deposit have initial maturities generally ranging from four to twelve months. Certificates are generally non-negotiable and non-transferable, and may incur substantial penalties for withdrawal prior to maturity. Investments are measured at fair value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Property and equipment – Property and equipment are stated at cost less accumulated depreciation and are depreciated using the straight-line method over their estimated useful lives, which generally range from three to five years. It is Energy Trust's policy to capitalize property and equipment over \$5,000.

Deferred rent liability – Energy Trust leases office space under a non-cancellable lease. The lease contains a provision for increases in rental rates as well as abated rent. Rent expense is recognized on the straight-line basis with the difference between the expense and rent payments being recognized as deferred rent. Deferred rent was \$314,472 and \$349,692 for the years ended December 31, 2015 and 2014, respectively.

Revenue recognition – All funding is considered available for unrestricted use unless specifically restricted by the donor. Public purpose and incremental funding are recognized when funds are received from the funding source.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period pledged. Contributions of assets other than cash are recorded at their estimated fair value on the date of their contribution.

Expense allocation – The costs of providing various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Advertising – Energy Trust expenses advertising costs as incurred. Advertising costs include activities to create or stimulate a desire to use Energy Trust’s services that are provided without charge. Advertising expense amounted to \$1,680,666 and \$1,328,145 for the years ended December 31, 2015 and 2014, respectively.

Income taxes – Energy Trust is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes is made in the accompanying financial statements, as Energy Trust has no activities subject to unrelated business income tax. Energy Trust is not a private foundation.

Energy Trust recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Energy Trust recognizes interest and penalties related to income tax matters, if any, in administrative expense.

Energy Trust had no unrecognized tax benefits at December 31, 2015 or 2014. No interest and penalties were accrued for the years ended December 31, 2015 or 2014. Energy Trust files an exempt organization return in the U.S. federal jurisdiction.

Renewable energy certificates – In the process of funding above-market costs of renewable energy resources, Energy Trust negotiates the contractual ownerships of Renewable Energy Certificates (REC) with funding recipients. A single REC represents one megawatt-hour of generation of qualifying electricity from eligible resources including, among others, solar, wind, and biomass. In 2011, Energy Trust amended policy 4.15.000-P to remove provisions allowing the sale of RECs. As of December 31, 2015 and 2014, the fair value of RECs has not been recorded as it is not considered material to the financial statements.

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.

Fair value of financial instruments – At December 31, 2015 and 2014, the carrying values of cash and cash equivalents, receivables, accounts payable and accrued expenses, and accrued payroll and related expenses approximate fair value due to the short-term nature of these instruments. Energy Trust has determined these financial instruments to be Level 1 measurements in the fair value hierarchy. See Note 6.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Energy Trust recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. Energy Trust's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

Energy Trust has evaluated subsequent events through March 23, 2016, which is the date the financial statements were issued.

Note 3 - Investments

Investments are stated at fair value as determined by quoted market prices and consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Fixed income investments	\$ 34,498,318	\$ 28,644,013
Certificates of deposit greater than 90 days	22,355,428	26,729,911
Commercial paper	-	4,988,800
U.S. government issues	<u>7,030,440</u>	<u>4,127,520</u>
	<u>\$ 63,884,186</u>	<u>\$ 64,490,244</u>

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 4 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2015</u>	<u>2014</u>
Computer equipment and software	\$ 3,509,829	\$ 1,653,762
Office equipment and furniture	701,604	679,343
Leasehold improvements	<u>318,964</u>	<u>318,964</u>
	4,530,397	2,652,069
Less accumulated depreciation	<u>2,672,098</u>	<u>1,831,551</u>
	1,858,299	820,518
Work in process	<u>150,148</u>	<u>1,025,909</u>
	<u>\$ 2,008,447</u>	<u>\$ 1,846,427</u>

At December 31, 2015 and 2014, work in process consisted of various software projects.

Note 5 - Lines of Credit

Energy Trust maintained an unsecured line of credit in the amount of \$4,000,000. Interest on the line was based on the prime rate less 0.5%. The line matured on December 5, 2014 and was not renewed.

Note 6 - Fair Value Measurements

Accounting literature defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Energy Trust determines fair value based on quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Energy Trust's market assumptions.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. Energy Trust's own data used to develop unobservable inputs is adjusted for market consideration when reasonably available.

Energy Trust used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Investments – Investments are comprised of fixed income funds, certificates of deposit, commercial paper, and U.S. government issues. Investments fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Deferred compensation assets – Deferred compensation assets are comprised of U.S. mutual funds and a guaranteed investment contract. For U.S. mutual funds, the fair value is obtained from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, cash flows, or the U.S. Treasury yield curve. The guaranteed investment contract is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable duration. Fair value approximates contract value. Deferred compensation assets are recorded in other assets within the statement of financial position.

There were no changes in the valuation methodologies or assumptions used by Energy Trust for the years ended December 31, 2015 or 2014.

It is Energy Trust's policy to recognize transfers of investments between levels in the fair value hierarchy on December 31st of each year.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by Energy Trust to determine such fair value:

	Fair Value Measurements at Report Date Using:			
	Fair Value at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred compensation assets:				
U.S. mutual funds	\$ 496,137	\$ 496,137	\$ -	\$ -
Guaranteed investment contract	228,844	-	228,844	-
Total deferred compensation assets	724,981	496,137	228,844	-
Investments:				
Fixed income investments				
U.S. corporate bonds	25,513,017	25,513,017	-	-
Canadian corporate bonds	4,007,020	4,007,020	-	-
Other foreign corporate bonds	4,018,540	4,018,540	-	-
Municipal bonds	959,741	959,741	-	-
Certificates of deposit	22,355,428	-	22,355,428	-
U.S. government issues	7,030,440	7,030,440	-	-
Total investments	63,884,186	41,528,758	22,355,428	-
Total assets measured at fair value	\$ 64,609,167	\$ 42,024,895	\$ 22,584,272	\$ -

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

	Fair Value Measurements at Report Date Using:			
	Fair Value at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deferred compensation assets:				
U.S. mutual funds	\$ 488,273	\$ 488,273	\$ -	\$ -
Guaranteed investment contract	141,903	-	141,903	-
Total deferred compensation assets	630,176	488,273	141,903	-
Investments:				
Fixed income investments				
U.S. corporate bonds	14,712,212	14,712,212	-	-
Canadian corporate bonds	5,043,180	5,043,180	-	-
Other foreign corporate bonds	8,108,040	8,108,040	-	-
Municipal bonds	780,581	780,581	-	-
Certificates of deposit	26,729,911	-	26,729,911	-
Commercial paper	4,988,800	-	4,988,800	-
U.S. government issues	4,127,520	4,127,520	-	-
Total investments	64,490,244	32,771,533	31,718,711	-
Total assets measured at fair value	\$ 65,120,420	\$ 33,259,806	\$ 31,860,614	\$ -

Assets are to be classified in the table above by recurring or non-recurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. There were no assets measured on a non-recurring basis at December 31, 2015 or 2014.

As of December 31, 2015 and 2014, Energy Trust does not have any liabilities that are required to be measured in accordance with fair value standards.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 7 – Notes Receivable

During 2014, Energy Trust entered into an agreement with Craft3 to loan up to \$300,000 in support of the Savings Within Reach Loan Program. At December 31, 2015 and 2014, Energy Trust had loaned \$100,000, which accrues interest at 1%, and is payable quarterly. The note receivable is due and payable ten years from the date of the final disbursement, but shall not extend beyond June 30, 2025. At December 31, 2015 and 2014, total accrued interest receivable associated with the note receivable was \$250, respectively. At December 31, 2014, Energy Trust was committed to loan an additional \$200,000 in \$100,000 increments which could be requested once the previous advance was 75% depleted, which had to occur prior to June 30, 2015. No additional amounts were requested during the year ended December 31, 2015.

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts outstanding per the terms of the agreement. Balances are written off only when they are deemed to be uncollectible. At December 31, 2015 and 2014, the allowance for doubtful accounts was \$14,391 and \$13,211, respectively.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 8 - Public Purpose Funding and Incremental Funding

Public purpose funding and incremental funding received are as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Public purpose funding		
Portland General Electric		
Energy efficiency	\$ 28,723,137	\$ 28,741,721
Renewable resources	<u>8,312,211</u>	<u>8,431,294</u>
	<u>37,035,348</u>	<u>37,173,015</u>
PacifiCorp		
Energy efficiency	21,164,176	21,298,942
Renewable resources	<u>5,925,092</u>	<u>5,954,514</u>
	<u>27,089,268</u>	<u>27,253,456</u>
Northwest Natural - Oregon		
Energy efficiency	<u>15,931,563</u>	<u>20,953,179</u>
Northwest Natural - Washington		
Energy efficiency	<u>1,435,515</u>	<u>1,054,355</u>
Cascade		
Energy efficiency	<u>1,294,913</u>	<u>2,455,200</u>
Total public purpose funding	<u>\$ 82,786,607</u>	<u>\$ 88,889,205</u>
Incremental funding		
Portland General Electric	\$ 42,053,468	\$ 48,928,367
PacifiCorp	<u>21,003,782</u>	<u>25,585,812</u>
	<u>\$ 63,057,250</u>	<u>\$ 74,514,179</u>

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 9 – Operating Lease Commitments

Energy Trust leases its administrative offices under an operating lease agreement which expires in June 2019. Energy Trust also leases various office equipment under operating lease agreements. At December 31, 2015, the aggregate annual commitments under the terms of these leases are payable as follows for the years ending December 31:

2016	\$ 672,526
2017	692,849
2018	715,616
2019	<u>430,229</u>
	<u>\$ 2,511,220</u>

Total rent expense under operating leases was \$619,517 and \$619,156 for the years ended December 31, 2015 and 2014, respectively.

Note 10 – Retirement Plans

Retirement plan – Energy Trust provides all employees with a qualified profit sharing retirement plan as prescribed 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, Energy Trust may make contributions to the plan. For each of the years ended December 31, 2015 and 2014, Energy Trust contributed to the plan an amount equal to 6% 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 Energy Trust was \$456,234 and \$424,084 for the years ended December 31, 2015 and 2014, respectively.

Deferred compensation plan – Energy Trust sponsors a non-qualified deferred compensation plan for selected employees. Investments are owned by Energy Trust and managed individually by each participant. At the time an employer contribution is made, the Board will, in its sole discretion, determine whether the employer contribution will be initially fully vested or will become vested in accordance with vesting terms designated by the Board of Directors. Until paid to participants, plan assets are subject to the claims of Energy Trust’s creditors.

Energy Trust did not make discretionary contributions to the plan during the years ended December 31, 2015 and 2014. Energy Trust recorded an asset and a liability in the amount of \$724,981 and \$727,781 and \$630,176 and \$632,976 as of December 31, 2015 and 2014, respectively.

The deferred compensation asset and liability are recorded in other assets and accrued payroll and related expenses, respectively, in the statement of financial position.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 11 - Contractual Commitments

Energy Trust enters into contract commitments for various goods and services. As of December 31, 2015, Energy Trust expects to pay approximately \$54,000,000 in future periods under these commitments. Expenditures for these commitments are recorded in the period in which they are incurred.

Energy Trust entered into incentive funding agreements for energy efficiency and renewable resource projects not completed as of December 31, 2015 totaling no more than \$80,000,000. These amounts will be paid in the period in which they are completed.

Energy Trust also has projects and incentive payment requests in progress that did not meet its recognition criteria at both December 31, 2015 and 2014. These amounts are unquantifiable and, as such, not disclosed in the notes to the financial statements.

Note 12 - Related Party Transactions

Energy Trust, along with a number of other northwest regional utilities, provides funding to Northwest Energy Efficiency Alliance (NEEA). Energy Trust benefits from the arrangement by achieving low cost, long lasting electric energy savings through NEEA's regional market transformation activities. Since 2010, Energy Trust's executive director has served on NEEA's board of directors. Total payments to NEEA were \$7,039,000 and \$7,366,000 for the years ended December 31, 2015 and 2014, respectively.