EnergyTrust of Oregon

Finance Committee Notes

March 23, 2009

The finance committee met at 2:00 pm on March 23, 2009, with John Klosterman, Treasurer and Finance Committee chair; Debbie Kitchin, Secretary; Dan Enloe, Board member, John Reynolds, Board Chair, Margie Harris, Executive Director, Sue Sample, Chief Financial Officer, and Pati Presnail, Controller, Elise Bouneff, Vice President, Bank of the Cascades and Walt Krumbholz, Executive Vice President, Bank of the Cascades, in attendance.

Bank of the Cascades update (Elise Bouneff, Walt Krumbholz)

Elise Bouneff and Walt Krumbholz from the Bank of the Cascades came to address concerns expressed by John K. and the committee about the financial health of the bank and the safety of our funds held there. Additionally the committee was interested in the results of a recent bank examination by the FDIC. The FDIC conducted a routine audit of the bank in January 2009. The results of that work are not available yet and when they are, they won't be made public. Elise assured the committee that the bank always responds in a timely and professional manner to recommendations made in the course of these audits and have already done so with some recommendations made during the exam.

Elise and Walt also presented their annual report and a disclosure of the status of Energy Trust accounts as of March 20th. They indicated that the Bank had its worst year in 2008. As part of the "mark to market" standard, the bank had formal appraisals done on all problem assets (defined as loans in excess of the market value of the asset or where the bank experienced non-payment of the debt). Restating the value of those assets to market value along with the write down of goodwill from prior bank acquisitions contributed to a loss in 2008 of $136 million. By making these efforts and taking the losses, the bank feels it has much less exposure to future write downs. The bank is still considered "well-capitalized" under federal regulatory guidelines.

To provide additional assurance, Sue has been monitoring the situation by regularly reviewing the bank's Uniform Bank Performance Reports. Cascade Bancorp also obtained an unqualified audit opinion in its audit of consolidated financial results for December 31, 2008. The bank continues to work toward reducing the amount of its nonperforming assets and its controllable operating costs.

As for Energy Trust's investments:

- Money market mutual funds are in Treasury Obligations accounts which are insured by a federal program through April 30, 2009. This insurance may be extended again.
- Majority of investments are in CDARs investments of varying maturities. These investments are fully FDIC insured.
- Checking account funds are also insured through a transaction account guarantee program. NOW accounts with interest rates of 0.5 percent or less are included in the program. (Currently the rate of return on these accounts earn is more than the short-term CDARs investments.)

Debbie asked what percentage Energy Trust's accounts were of Bank of the Cascades' total capitalization. Elise responded that their total deposits are roughly $1.7 billion.

Bank of the Cascades responded to a request by Energy Trust for a proposal for an increased line of credit with the renewal this year, from $4 million to $7 million. The purpose was to match what Energy Trust considers its desired reserve amount based on the 2009 and 2010 budget

and projections. The proposal from the bank agreed to the request, with the following stipulations:

- Rate would continue to be floating at prime minus .50%.
- There would be a new fee of .25% assessed on the additional amount requested of $3 million above the original $4 million line. There would continue to be no fee assessed on the first $4 million.
- A new requirement for Energy Trust to maintain minimum cash balances of not less than $21 million.
- A new requirement for Energy Trust to maintain Net Assets of not less than $21 million.
- A new requirement that Energy Trust maintain its primary deposit and banking relationship with Bank of the Cascades.

Sue expressed her concerned that the new minimum requirements would effectively defeat the purpose of Energy Trust obtaining the line of credit as its purpose is to facilitate shortfalls until funding becomes available and to provide a resource where funding streams could not be redistributed between sources. Energy Trust's relatively stable income stream has replaced the minimum balance requirement in the past with the bank. Walt said that the minimums could be negotiated.

The committee decided to renew the line of credit at its original $4 million amount with the original stipulations and covenants, and perhaps reassess later in the year when a need may become more apparent. John K. expressed the committees' appreciation for Elise and Walt's attendance at the meeting and asked for regular (quarterly) meetings to keep updated on the banking situation.

December 31, 2008 Audited Financial Statements

With the timing on the receipt of the draft audited financial statements (the day before the meeting) most of the committee had not had a chance to thoroughly review the document. Dan brought forth a couple of questions about cash restricted in escrow accounts and about the 401K expense as a percentage of payroll expense. Upon subsequent confirmation with John Volkman, the escrow accounts represent contractual commitments that are not available for other purposes, and are therefore secure. Sue explained that the 401K expense in the audited financial statements includes both the employer portion of the premiums plus the administrative fees. The Compensation Committee reviews the fees assessed as part of their annual reviews of the plan. Payroll costs are both a named line item in the statement of functional expenses as well as part of allocated costs, which makes a direct calculation difficult to do with the supporting documentation.

January 31, 2009 Financial Statements

Debbie questioned why incentives are so far below budget in January. It seems like they're even lower than usual for this time of year. [In January 2008, incentives were 26% of budget; in January 2009 they amounted to only 21% of budget.] Pati responded that incentives are currently closer to 50% of budget.

Other Items

Margie provided a brief legislative update.

Next Meeting

The next Finance Committee meeting is tentatively scheduled for Monday, May 18, 2009 at 3:00 pm. Debbie will be unavailable for that meeting. The meeting adjourned at 3:30 pm.