

Report of Independent Auditors
and Financial Statements for

Energy Trust of Oregon, Inc.

December 31, 2016 and 2015

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, 2016 and 2015, 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 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 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, 2016 and 2015, 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 28, 2017

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, 2016, 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, 2016, by \$33.9 million (net assets).
- During 2016, Energy Trust's total net position decreased by \$34.4 million as planned in Energy Trust's 2016 budget. Following are some significant financial highlights accounting for the decrease from the prior year.
 - Total revenue of \$151.3 million was \$3.3 million (-2%) less than the total amount budgeted of \$154.6 million. Revenues were \$4.9 million greater (3%) than last year. 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 relatively flat in order to intentionally draw down reserves from prior year levels.
 - Operating expenses increased by \$20.3 million or 12% from 2015, due to increased demand for projects and corresponding incentive growth. Total expenses of \$185.7 million were within \$3.4 million (-2%) of the total amount budgeted of \$189.1 million. The increase in total spending was mostly due to energy conservation and renewable generation incentive payments which rose by \$14.5 million. Program subcontracts increased \$3.2 million and salaries and related expenses increased by \$1.0 million. All other operating costs were essentially flat, increasing less than 1% or \$1.6 million.

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

Energy Goals	2016	2016 goal	compared to goal	2015*	Change '15 to '16
Electric efficiency savings (aMW)	60.0	55.1	4.9	53.1	6.9
Electric renewable generation (aMW)	2.8	4.1	(1.3)	3.9	(1.1)
Gas efficiency savings - Oregon (million therms)	6.7	5.7	1.0	6.4	0.3
Gas efficiency savings - Washington (million therms)	0.3	0.3	0.0	0.2	0.1

* after true-up

- Energy Trust exceeded electric and gas efficiency savings goals in Oregon and Southwest Washington. Electric efficiency savings totaled 60 average megawatts (aMW), achieving 108.9% of the 2016 goal of 55.1 aMW. Natural gas savings totaled 6.7 million annual therms of gas, achieving 116.9% of the 2016 goal of 5.7 million annual therms. Energy Trust fell short of the goal for electric renewable generation, yet exceeded its annual electric renewable generation performance measure by securing 2.3 aMW of standard solar generation. Some of the ways we achieved energy savings and generation include:
 - We installed more standard solar capacity and generation in 2016 than in any other year, with support for a record 1,200 customer-owned solar systems.
 - LEDs were in strong demand across all sectors, with residential, commercial and industrial customers installing 4.7 million bulbs.
 - We engaged Oregon's strong new construction market, completing 426 New Buildings projects and 3,300 homes rated with EPS™, an energy performance score.
 - We completed 1,400 energy-efficiency projects at industrial or agricultural businesses in 2016, roughly the same as in 2015.
 - We processed more than 100,000 customer transactions, roughly on par with 2015.

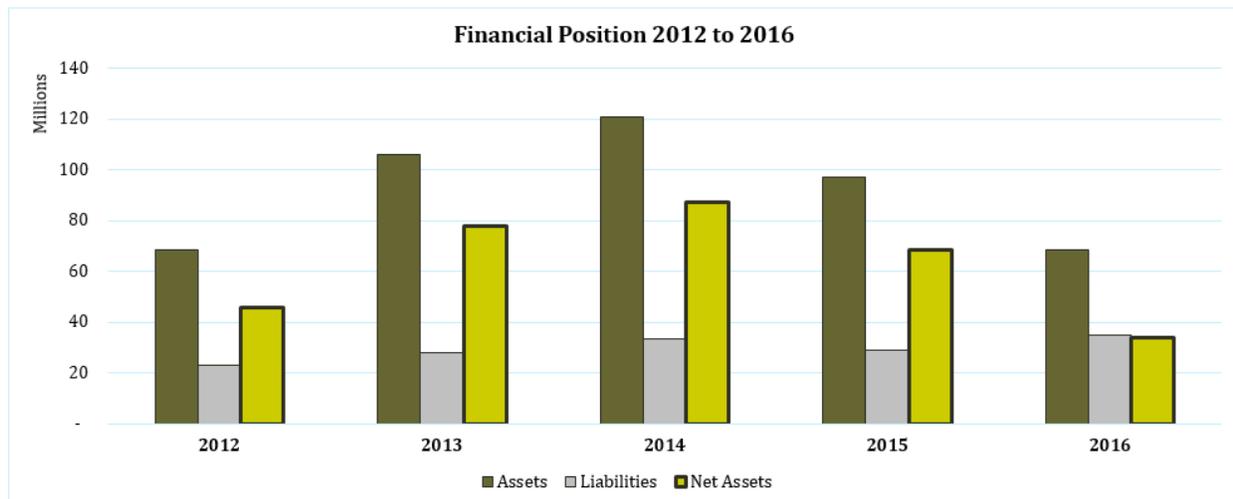
Overview of the Financial Statements

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

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

The *statements of financial position* show the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. 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 \$33.9 million at year end. Almost all Energy Trust assets are held in cash and investments; capital and other assets comprise around 7% of the total. Nearly all of the liabilities at year-end are due to year-end incentive payments. Energy Trust carries no long-term debt.

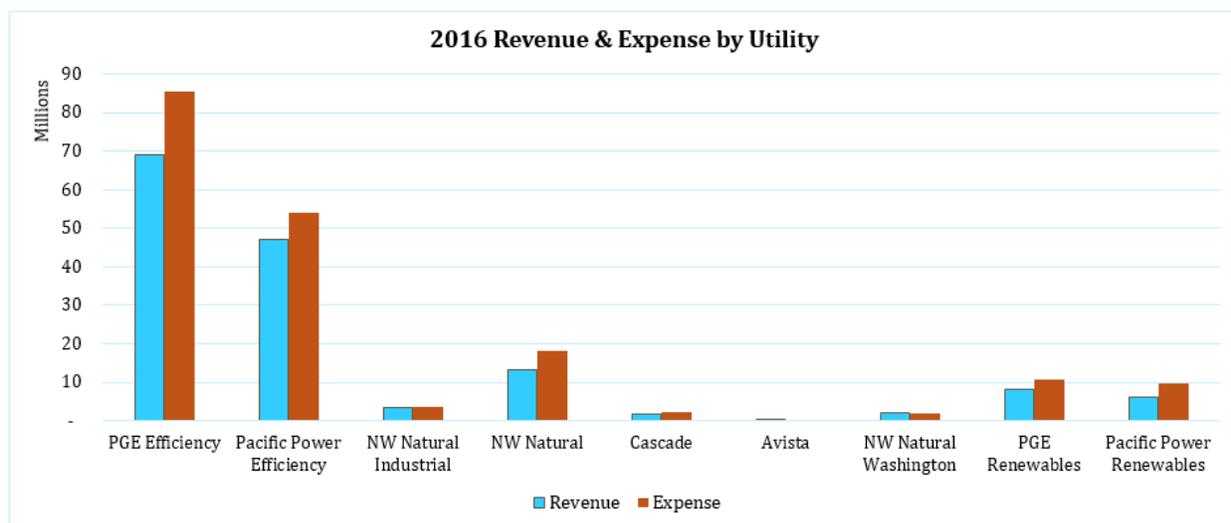
Statement of Financial Position (in millions of dollars)		2016	2015	Change '15 to '16	2014	Change '14 to '15
Cash & Investments	\$ 63.8	\$ 91.1	\$ (27.3)	\$ 115.9	\$ (24.8)	
All other Assets	4.8	5.8	(1.0)	4.9	0.9	
Total Assets	\$ 68.6	\$ 96.9	\$ (28.3)	\$ 120.8	\$ (23.9)	
Total Liabilities	\$ 34.7	\$ 28.7	\$ 6.0	\$ 33.6	\$ (4.9)	
Board Designated Net Assets	-	-	-	-	-	
Assets Available for Programs & Operations	33.9	68.2	(34.3)	87.2	(19.0)	
Total Liabilities & Net Assets	\$ 68.6	\$ 96.9	\$ (28.3)	\$ 120.8	\$ (23.9)	



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 reduce net assets (reserves) from prior year levels by \$34.4 million. Actual revenues and expenditures were very close to budgeted amounts.

Statements of Activities (in millions of dollars)		2016	2015	Change '15 to '16	2014	Change '14 to '15
Public Purpose Funding		\$ 84.2	\$ 82.8	\$ 1.4	\$ 88.9	\$ (6.1)
Incremental Funding		66.6	63.1	3.5	74.5	(11.4)
Other Income		0.5	0.5	0.0	0.2	0.3
Total Funding		151.3	146.4	4.9	163.6	(17.2)
Program Expenses		179.3	159.9	19.4	149.2	10.7
Administrative Expenses		6.4	5.5	0.9	5.1	0.4
Total Expenses		185.7	165.4	20.3	154.3	11.1
Increase (Decrease) in Net Assets		\$ (34.4)	\$ (19.0)	\$ (15.4)	\$ 9.3	\$ (28.3)

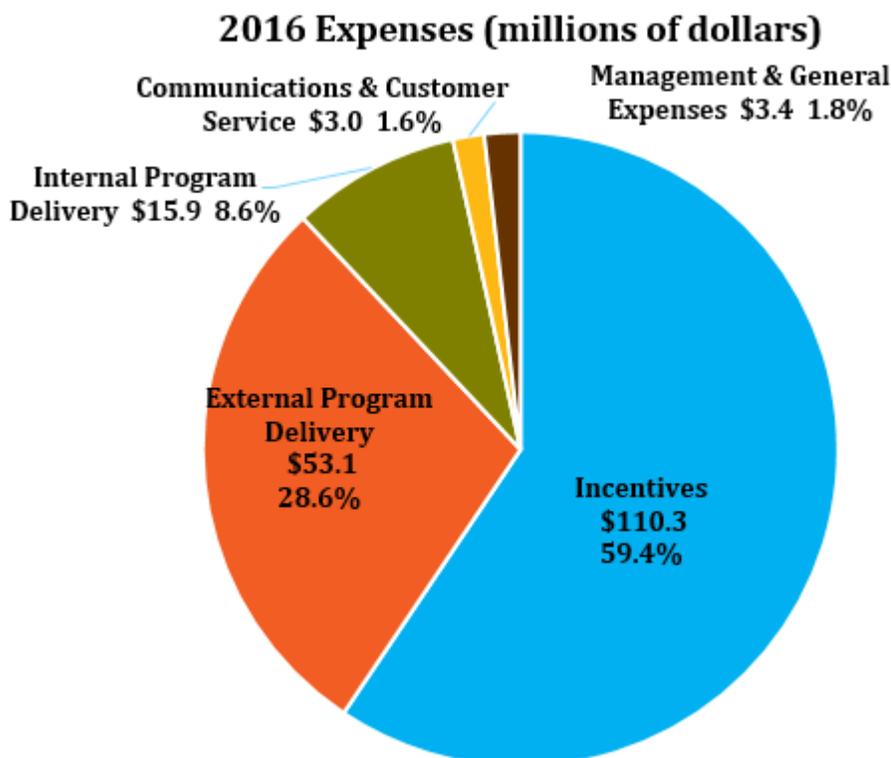


ENERGY TRUST OF OREGON, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of functional expenses* shows costs by major category organized into program and administrative categories. In 2016, program expenses comprised 96.6% of total costs; administrative expenses of 3.4% made up the remainder. This composition is consistent with the prior year.

Statement of Functional Expenses (in millions of dollars)	2016	2015	Change '15 to '16	2014	Change '14 to '15
Energy Efficiency	\$ 159.7	\$ 142.7	\$ 17.0	\$ 136.1	\$ 6.6
Renewable Resources	19.6	17.2	2.4	13.1	4.1
Program Expenses	179.3	159.9	19.4	149.2	10.7
Management & General	3.4	2.9	0.5	2.7	0.2
Communications & Outreach	3.0	2.6	0.4	2.4	0.2
Administrative Expenses	6.4	5.5	0.9	5.1	0.4
Total Expenses	\$ 185.7	\$ 165.4	\$ 20.3	\$ 154.2	\$ 11.1

Actual expenses increased in all categories as overall spending rose 12% from \$165.4 million to \$185.7 million. However, the percentage breakdown among functions remained relatively consistent. Incentives as a percent of total spending increased from 57.9% to 59.4%; external program delivery costs declined from 30.2% to 28.6%. The percentage of spending in all other categories was up slightly from 11.9% to 12.0% 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. Inflows also include maturing investments. Outflows are predominantly payments for incentives and program contracts, as well as payments for payroll, outsourced services, IT, and other operating expenses. Overall, cash receipts were more than cash payments for the year because of maturing investments we chose to keep in cash rather than reinvesting. Cash and cash equivalents increased by \$17.3 million in 2016 while investments decreased by \$44.5 million. Cash used in operating activities of \$26.8 million is related to the planned reduction in net assets (reserves).

	2016	2015	Change '15 to '16	2014	Change '14 to '15
Net Cash from operating activities	\$ (26.7)	\$ (23.1)	\$ (3.6)	\$ 16.1	\$ (39.2)
Net Cash used for capital assets	(0.0)	(1.0)	1.0	(1.4)	0.4
Net Cash from investing activities	44.0	(0.1)	44.1	(39.8)	39.7
(Decrease) Increase in Cash	17.3	(24.2)	41.5	(25.1)	0.9
Cash Beginning of Year	27.2	51.4	(24.2)	76.5	(25.1)
Cash End of Year	\$ 44.5	\$ 27.2	\$ 17.3	\$ 51.4	\$ (24.2)

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 2016. We expect to see continued expansion in 2017.

The 2017 budget anticipates revenue of \$192.9 million, and expenditures of \$198.6 million, continuing the multi-year plan of spending down accumulated net assets, and ending the year with program reserves close 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. All quarterly and annual financial statements, along with quarterly and annual reports, are available on Energy Trust's web site at www.energytrust.org/reports. 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: Mariet Steenkamp, CFO

FINANCIAL STATEMENTS

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2016	2015
Cash and cash equivalents	\$ 44,471,034	\$ 27,186,506
Investments	19,350,135	63,884,186
Other receivables	359	66,702
Notes receivable, net of allowance	260,891	85,609
Accrued interest receivable	85,699	307,913
Advances paid to contractor	2,050,126	2,049,018
Prepaid expenses	280,347	479,349
Property and equipment, net	1,133,205	2,008,447
Other assets	1,072,861	857,321
Total assets	\$ 68,704,657	\$ 96,925,051

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 32,590,883	\$ 26,913,992
Accrued payroll and related expenses	1,680,596	1,463,292
Deferred rent liability	559,253	314,472
Total liabilities	34,830,732	28,691,756

COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted	33,873,925	68,233,295
Total net assets	33,873,925	68,233,295
Total liabilities and net assets	\$ 68,704,657	\$ 96,925,051

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF ACTIVITIES

	Years Ended December 31,	
	2016	2015
Funding		
Public purpose funding	\$ 84,222,567	\$ 82,786,607
Incremental funding	66,568,753	63,057,250
Contribution revenue	-	1,550
Total funding	<u>150,791,320</u>	<u>145,845,407</u>
Investment returns		
Interest and dividends on investments, net of amortization	458,184	534,173
Interest on notes receivable	1,411	1,000
Unrealized gain on investments	72,329	16,358
Total investment returns	<u>531,924</u>	<u>551,531</u>
Total revenues	<u>151,323,244</u>	<u>146,396,938</u>
Expenses		
Program expenses		
Energy efficiency	159,691,338	142,662,351
Renewable resources	19,596,783	17,266,025
Total program expenses	<u>179,288,121</u>	<u>159,928,376</u>
Administrative expenses		
Management and general	3,404,077	2,861,485
Communication and outreach - general	2,961,790	2,600,902
Total administrative expenses	<u>6,365,867</u>	<u>5,462,387</u>
Avista development	28,626	-
Total expenses	<u>185,682,614</u>	<u>165,390,763</u>
DECREASE IN NET ASSETS	(34,359,370)	(18,993,825)
NET ASSETS, beginning of year	<u>68,233,295</u>	<u>87,227,120</u>
NET ASSETS, end of year	<u>\$ 33,873,925</u>	<u>\$ 68,233,295</u>

ENERGY TRUST OF OREGON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Energy Efficiency	Renewable Resources	Total Program Expenses	Management and General	Communication and Outreach – General	Total Administrative Expenses	Avista Development	Total Expenses
EXPENSES								
Incentives	\$ 93,736,085	\$ 16,540,433	\$ 110,276,518	\$ -	\$ -	\$ -	\$ -	\$ 110,276,518
Program management	52,639,975	438,645	53,078,620	-	-	-	1,940	53,080,560
Payroll and related expenses	3,400,679	1,043,010	4,443,689	2,348,328	1,353,842	3,702,170	26,686	8,172,545
Outsourced services	4,423,336	874,753	5,298,089	351,539	1,099,537	1,451,076	-	6,749,165
Planning and evaluation	2,332,331	77,526	2,409,857	1,723	-	1,723	-	2,411,580
Customer service management	479,377	123,380	602,757	-	-	-	-	602,757
Trade Allies Network	270,932	18,440	289,372	-	-	-	-	289,372
Supplies	8,114	2,760	10,874	8,329	4,161	12,490	-	23,364
Postage and shipping	2,493	849	3,342	2,977	1,214	4,191	-	7,533
Telephone	2,761	940	3,701	1,515	1,094	2,609	-	6,310
Printing and publications	2,656	102	2,758	6,561	118	6,679	-	9,437
Occupancy expenses	241,400	82,175	323,575	132,473	95,595	228,068	-	551,643
Insurance	30,540	10,396	40,936	16,759	12,094	28,853	-	69,789
Equipment	5,436	79,312	84,748	2,983	2,153	5,136	-	89,884
Travel	48,249	23,681	71,930	35,104	51,026	86,130	-	158,060
Meetings, trainings, and conferences	30,300	14,554	44,854	53,229	17,265	70,494	-	115,348
Bank fees	-	-	-	1,668	-	1,668	-	1,668
Depreciation	47,221	16,074	63,295	25,913	18,700	44,613	-	107,908
Dues, licenses, and fees	68,951	11,715	80,666	9,041	13,377	22,418	-	103,084
Miscellaneous	117,320	169	117,489	273	12,384	12,657	-	130,146
IT services	1,803,182	237,869	2,041,051	405,662	279,230	684,892	-	2,725,943
Total expenses	\$ 159,691,338	\$ 19,596,783	\$ 179,288,121	\$ 3,404,077	\$ 2,961,790	\$ 6,365,867	\$ 28,626	\$ 185,682,614

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.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received in public purpose funding	\$ 84,222,567	\$ 82,786,607
Cash received in incremental funding	66,568,753	63,057,250
Interest received	995,209	1,252,221
Cash received from other sources	-	1,550
Cash paid to contractors, suppliers, and employees	(178,543,459)	(170,205,614)
Net cash from operating activities	(26,756,930)	(23,107,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(51,522)	(1,002,566)
Purchases of investments	(25,035,448)	(48,834,342)
Sales and maturities of investments	69,328,428	48,720,035
Issuance of notes receivable	(200,000)	-
Net cash from investing activities	44,041,458	(1,116,873)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,284,528	(24,224,859)
CASH AND CASH EQUIVALENTS, beginning of year	27,186,506	51,411,365
CASH AND CASH EQUIVALENTS, end of year	\$ 44,471,034	\$ 27,186,506
RECONCILIATION OF DECREASE IN NET ASSETS TO		
NET CASH FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (34,359,370)	\$ (18,993,825)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	926,764	840,546
Change in notes receivable allowance	24,718	1,180
Unrealized gain on investments	(72,329)	(16,358)
Amortization of bond premium	313,400	736,723
Net changes in:		
Other receivables	66,343	(31,410)
Accrued interest receivable	222,214	(19,675)
Advances paid to contractor	(1,108)	(566,869)
Prepaid expenses	199,002	(73,919)
Other assets	(215,540)	(91,805)
Accounts payable and accrued expenses	5,676,891	(5,015,278)
Accrued payroll and related expenses	217,304	157,924
Deferred rent liability	244,781	(35,220)
Net cash from operating activities	\$ (26,756,930)	\$ (23,107,986)

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 1, 2018.

In 2016, Energy Trust entered into a Public Purpose Funds Transfer Agreement with Avista Corporation (Avista). Under the terms of the agreement, Avista agrees to provide funds to Energy Trust for energy conservation programs in Avista’s Oregon service areas. Beginning January 1, 2017, Energy Trust will provide for more comprehensive energy efficiency programs. The agreement expires on January 1, 2018.

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, 2016 or 2015.
- **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, 2016 or 2015.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 \$559,253 and \$314,472 for the years ended December 31, 2016 and 2015, 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 \$1,867,384 and \$1,680,666 for the years ended December 31, 2016 and 2015, 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, 2016 or 2015. No interest and penalties were accrued for the years ended December 31, 2016 or 2015. 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, 2016 and 2015, 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, 2016 and 2015, 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 5.

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 issued.

Energy Trust has evaluated subsequent events through March 28, 2017, 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>2016</u>	<u>2015</u>
Fixed income investments	\$ 7,942,280	\$ 34,498,318
Certificates of deposit greater than 90 days	9,419,115	22,355,428
Commercial paper	1,988,740	-
U.S. government issues	<u>-</u>	<u>7,030,440</u>
	<u>\$ 19,350,135</u>	<u>\$ 63,884,186</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>2016</u>	<u>2015</u>
Computer equipment and software	\$ 3,696,232	\$ 3,509,829
Office equipment and furniture	716,876	701,604
Leasehold improvements	<u>318,964</u>	<u>318,964</u>
	4,732,072	4,530,397
Less accumulated depreciation	<u>3,598,867</u>	<u>2,672,098</u>
	1,133,205	1,858,299
Work in process	<u>-</u>	<u>150,148</u>
	<u><u>\$ 1,133,205</u></u>	<u><u>\$ 2,008,447</u></u>

At December 31, 2015, work in process consisted of various software projects that were placed into service during 2016.

Note 5 - 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 5 – 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 investments, 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 statements of financial position.

There were no changes in the valuation methodologies or assumptions used by Energy Trust for the years ended December 31, 2016 or 2015.

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 5 - 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, 2016	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	\$ 571,396	\$ 571,396	\$ -	\$ -
Guaranteed investment contract	278,126	-	278,126	-
Total deferred compensation assets	849,522	571,396	278,126	-
Investments:				
Fixed income investments				
U.S. corporate bonds	5,016,060	5,016,060	-	-
Canadian corporate bonds	2,000,540	2,000,540	-	-
Municipal bonds	925,680	925,680	-	-
Certificates of deposit	9,419,115	-	9,419,115	-
Commercial paper	1,988,740	-	1,988,740	-
Total investments	19,350,135	7,942,280	11,407,855	-
Total assets measured at fair value	\$ 20,199,657	\$ 8,513,676	\$ 11,685,981	\$ -

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 5 – Fair Value Measurements (continued)

	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	-
Commercial paper	-	-	-	-
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	\$ -

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, 2016 or 2015.

As of December 31, 2016 and 2015, 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 6 - Notes Receivable

Energy Trust has entered into an agreement with Craft3 to loan up to \$300,000 in support of the Savings Within Reach Loan Program. At December 31, 2016 and 2015, Energy Trust had loaned \$300,000 and \$100,000, respectively, 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, 2016 and 2015, total accrued interest receivable associated with the notes receivable was \$683 and \$250, respectively. 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. During 2015, the agreement was amended to extend the disbursement period to December 31, 2016. The final \$200,000 was requested and disbursed on October 17, 2016.

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, 2016 and 2015, the allowance for doubtful accounts was \$39,109 and \$14,391, respectively.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 7 – Public Purpose Funding and Incremental Funding

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

	<u>2016</u>	<u>2015</u>
Public purpose funding		
Portland General Electric		
Energy efficiency	\$ 28,127,436	\$ 28,723,137
Renewable resources	<u>8,105,815</u>	<u>8,312,211</u>
	<u>36,233,251</u>	<u>37,035,348</u>
PacifiCorp		
Energy efficiency	21,541,576	21,164,176
Renewable resources	<u>6,052,225</u>	<u>5,925,092</u>
	<u>27,593,801</u>	<u>27,089,268</u>
Northwest Natural - Oregon		
Energy efficiency	<u>16,613,855</u>	<u>15,931,563</u>
Northwest Natural - Washington		
Energy efficiency	<u>1,937,679</u>	<u>1,435,515</u>
Cascade		
Energy efficiency	<u>1,687,981</u>	<u>1,294,913</u>
Avista		
Energy efficiency	<u>156,000</u>	<u>-</u>
Total public purpose funding	<u>\$ 84,222,567</u>	<u>\$ 82,786,607</u>
Incremental funding		
Portland General Electric	\$ 41,012,913	\$ 42,053,468
PacifiCorp	<u>25,555,840</u>	<u>21,003,782</u>
Total incremental funding	<u>\$ 66,568,753</u>	<u>\$ 63,057,250</u>

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 8 – Operating Lease Commitments

Energy Trust leases its administrative offices under an operating lease agreement which expires in June 2025. At December 31, 2016, the aggregate annual commitments under the terms of these leases are payable as follows for the years ending December 31:

2017	\$ 430,115
2018	715,822
2019	616,435
2020	1,006,895
2021	1,039,348
Thereafter	<u>4,481,923</u>
	<u>\$ 8,290,538</u>

Total rent expense under operating leases was \$784,667 and \$619,517 for the years ended December 31, 2016 and 2015, respectively.

Note 9 – 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, 2016 and 2015, 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 \$519,654 and \$456,234 for the years ended December 31, 2016 and 2015, 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, 2016 or 2015. Energy Trust recorded an asset and a liability in the amount of \$849,522 and \$853,072 and \$724,981 and \$727,781 as of December 31, 2016 and 2015, respectively.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9 - Retirement Plans (continued)

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

Note 10 - Contractual Commitments

Energy Trust enters into contract commitments for various goods and services. As of December 31, 2016, Energy Trust expects to pay approximately \$66,000,000 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, 2016 totaling no more than \$75,000,000. 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, 2016 and 2015. These amounts are unquantifiable and, as such, not disclosed in the notes to the financial statements.

Note 11 - 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. Effective September 9, 2016, the Executive Director retired from Energy Trust and had served on NEEA's board of directors since 2010. Total payments to NEEA were approximately \$9,402,000 and \$7,039,000 for the years ended December 31, 2016 and 2015, respectively.