

Report of Independent Auditors
and Financial Statements for

Energy Trust of Oregon, Inc.

December 31, 2013 and 2012

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, 2013 and 2012, 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 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, 2013 and 2012, 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 9 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 19, 2014

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, 2013, 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, 2013, by \$77.9 million (net position). Of this amount, \$0.1 million is temporarily restricted and the remainder, \$77.8 million, 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, 2013 these commitments are estimated at \$54.0 million.
- During 2013, Energy Trust's total net position increased by \$32.3 million. Following are some significant financial highlights accounting for the increase from the prior year.
 - Revenue increased by \$16.2 million or 11.3 percent over 2012. Total revenue of \$162.6 million was slightly lower (1.7 percent) than the amount budgeted, \$165.3 million. Energy Trust revenues are established annually in collaboration with its affiliated private utilities and the Oregon Public Utility Commission in an amount deemed necessary to acquire all cost-effective energy efficiency and conservation and develop renewable generation in accordance with annually approved goals. Revenue estimates are provided by utilities and are relatively stable and predictable, although weather and other changes in energy consumption can cause some variability.
 - Operating expenses decreased by \$25.1 million or 16.2 percent under 2012. Total expenses of \$130.3 million were also significantly lower (23.4 percent) than the amount budgeted, \$170.2 million. Energy conservation and renewable generation incentive payments declined by \$23.5 million from the prior year (to \$67.8 million) and were 31 percent under budget.
- Even with significantly lower operating expenditures, energy savings acquired exceeded stretch goals for electricity, and nearly met stretch goals for gas. Electric efficiency savings totaled 57.8 average megawatts (aMW), achieving 104 percent of the 2013 stretch goal of 55.8 aMW. Natural gas savings totaled 5.3 million annual therms of gas, achieving 97 percent of the 2013 stretch goal of 5.4 million annual therms. Energy Trust secured a significant amount of energy savings in 2013 at lower than anticipated costs. A number of large commercial and industrial projects, including two data centers, as well as various low-cost behavioral based conservation programs, helped deliver a large amount of low cost savings.

ENERGY TRUST OF OREGON, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Energy Trust achieved total renewable energy generation of 2.87 aMW, achieving 72 percent of the 2013 conservative goal of 4.0 aMW. Several planned 2013 projects were delayed and are expected to complete in 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an overview to 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 \$77.9 million at year end. Almost all Energy Trust assets are held in cash and investments; capital and other assets comprise less than four percent of the total. Liabilities are centered in accounts payable, and reflect primarily year-end incentive payments. Energy Trust carries no long term debt.

Statements of Financial Position					
<small>(in millions of dollars)</small>					
	<u>2013</u>	<u>2012</u>	<u>Change '13 to '12</u>	<u>2011</u>	<u>Change '12 to '11</u>
Cash & Investments	101.7	64.0	37.7	73.1	(9.1)
Restricted Cash	0.1	0.5	(0.4)	1.0	(0.5)
All other Assets	4.0	4.0	(0.0)	4.9	(0.9)
Total Assets	<u>105.8</u>	<u>68.5</u>	<u>37.3</u>	<u>79.0</u>	<u>(10.5)</u>
Total Liabilities	27.9	22.8	5.1	24.3	(1.5)
Board Designated Net Assets	0.1	0.5	(0.4)	1.0	(0.5)
Assets Available for Programs & Operations	<u>77.8</u>	<u>45.2</u>	<u>32.6</u>	<u>53.7</u>	<u>(8.5)</u>
Total Liabilities & Assets	<u>105.8</u>	<u>68.5</u>	<u>37.3</u>	<u>79.0</u>	<u>(10.5)</u>

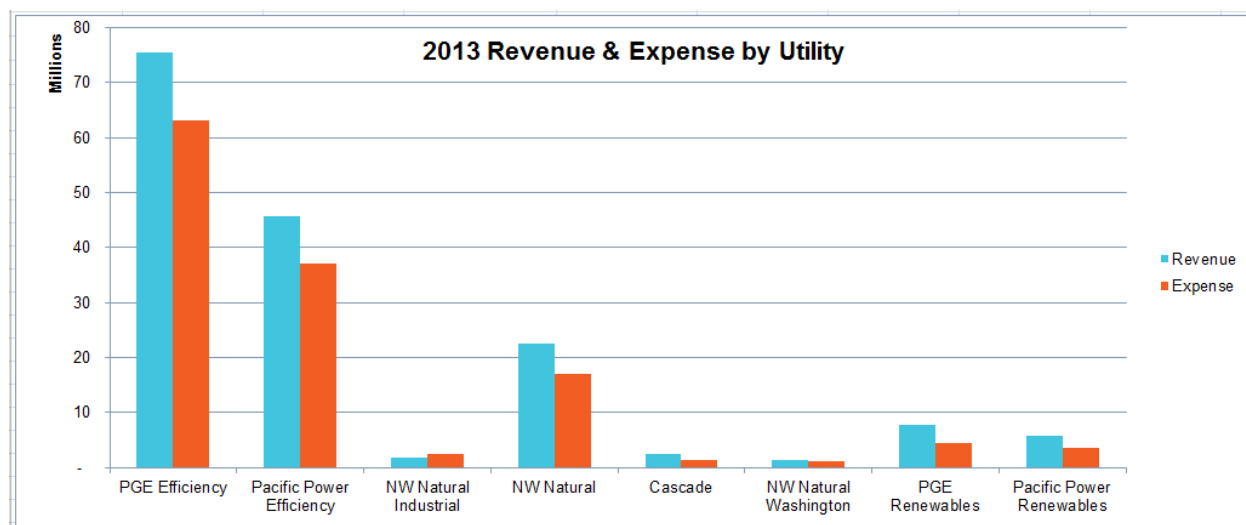
ENERGY TRUST OF OREGON, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS



The *statements of activities* show the various revenues and expenses, reconciling the beginning net position to the end of year total. These statements show how Energy Trust's net assets changed during the year. Net assets increased substantially, by \$32.3 million in 2013, due to a significant operating surplus. Revenues increased moderately while spending decreased as a result of Energy Trust securing a significant amount of energy savings at lower than anticipated costs.

Statements of Activities					
(in millions of dollars)					
	<u>2013</u>	<u>2012</u>	<u>Change '13 to '12</u>	<u>2011</u>	<u>Change '12 to '11</u>
Public Purpose Funding	88.0	82.9	5.1	83.9	(1.0)
Incremental Funding	74.5	63.2	11.3	49.1	14.0
Other Income	0.1	0.3	(0.2)	0.2	0.1
Total Funding	<u>162.6</u>	<u>146.4</u>	<u>16.2</u>	<u>133.2</u>	<u>13.1</u>
Program Expenses	126.0	150.2	(24.2)	135.6	14.5
Administrative Expenses	4.3	5.2	(0.9)	4.0	1.2
Total Expenses	<u>130.3</u>	<u>155.4</u>	<u>(25.1)</u>	<u>139.6</u>	<u>15.7</u>
Increase (Decrease) in Net Assets	<u>32.3</u>	<u>(9.0)</u>	<u>41.3</u>	<u>(6.4)</u>	<u>(2.6)</u>

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

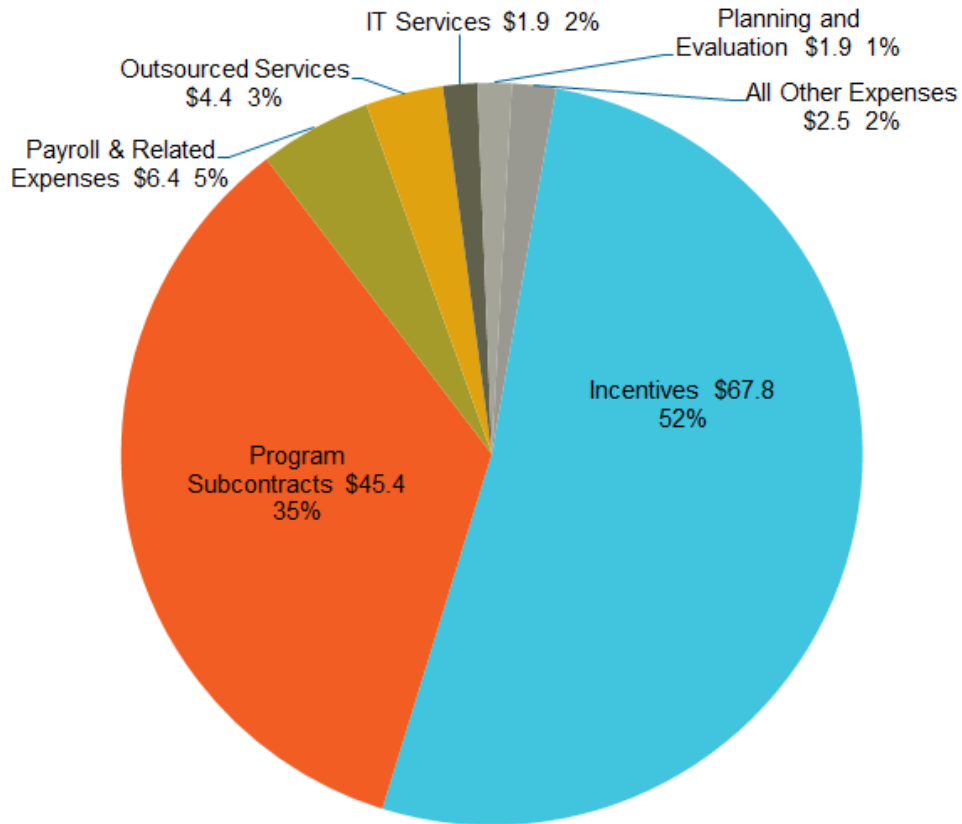


The *statement of functional expenses* shows costs by major category organized into program and administrative categories. In 2013, program expenses comprised 96.7 percent of total costs; administrative expenses of 3.3 percent made up the remainder.

Statement of Functional Expenses					
(in millions of dollars)					
	2013	2012	Change '13 to '12	2011	Change '12 to '11
Energy Efficiency	118.1	128.4	(10.3)	117.6	10.7
Renewable Resources	7.9	21.8	(13.9)	18.0	3.8
Program Expenses	126.0	150.2	(24.2)	135.6	14.5
Management & General	2.6	3.4	(0.8)	2.5	0.9
Communications & Outreach	1.7	1.8	(0.1)	1.5	0.3
Administrative Expenses	4.3	5.2	(0.9)	4.0	1.2
Total Expenses	130.3	155.4	(25.1)	139.6	15.7

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

2013 Functional Expenses (millions of dollars)

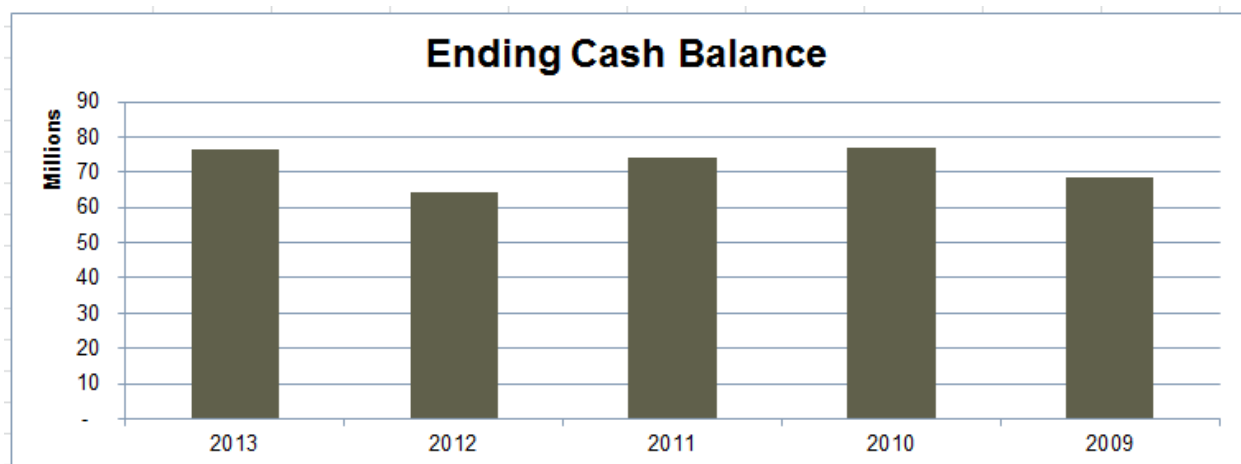


ENERGY TRUST OF OREGON, INC.

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 exceeded cash payments for the year, and cash and cash equivalents increased by \$12.5 million in 2013. The increase can be tied to the growth in net assets shown in the Statement of Activities.

Statement of Cash Flows					
(in millions of dollars)					
	<u>2013</u>	<u>2012</u>	<u>Change '13 to '12</u>	<u>2011</u>	<u>Change '12 to '11</u>
Net Cash Used in Operating Activities	37.5	(9.3)	46.8	(1.7)	(7.6)
Net Cash Provided by Investing	(25.0)	0.2	(25.2)	7.2	(7.0)
(Decrease) Increase in Cash	12.5	(9.1)	21.6	5.5	(14.6)
Cash Beginning of Year	<u>64.0</u>	<u>73.1</u>	<u>(9.1)</u>	<u>67.6</u>	<u>5.5</u>
Cash End of Year	<u>76.5</u>	<u>64.0</u>	<u>12.5</u>	<u>73.1</u>	<u>(9.1)</u>



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

Key Economic Factors and Budget Information for Next Year

- Oregon's economy continues to recover from the 2008 recession. The state's unemployment rate still exceeds the national average, but dropped from 8.3 percent to 7.0 percent in 2013. Personal income growth is projected to increase 5.1 percent in 2014.
- The improved economic conditions create opportunities for energy efficiency projects in certain market segments, such as new construction. They also may lead to increased opportunities to attract capital investments in facility improvements and equipment. However, even though the economy is showing favorable signs of rebuilding, not all parts of the state are recovering. It is also expected the energy efficiency market will remain challenging due mainly to:
 - The ongoing adjustment in the marketplace stemming from the loss of state business energy tax credits
 - Cost effectiveness challenges stemming primarily from low natural gas prices that lengthen project payback and make customer investment in energy efficient projects less compelling
 - Market maturation and saturation - the "easy fruit" has in certain segments already been picked and a portion of future savings is expected to come from underserved and harder-to-reach parts of the market.
- The budget for 2014 anticipates slightly lower revenue (1.4 percent) due to anticipated gas tariff rate adjustments.
- Planned spending in 2014 is expected to increase by approximately 3.5 percent. Approximately ninety percent of the increase can be tied to anticipated higher incentive and program delivery costs. New strategies are needed to reach more and different customers. This entails higher volume, smaller projects which yield lower savings and higher transaction costs.
- More analysis is needed to determine if 2013 results—specifically the attainment of certain types of energy savings at less-than-expected cost—will continue or likely not reoccur.

Most of these factors were known and considered in preparing Energy Trust's budget for 2014.

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

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: Courtney Wilton, CFO

FINANCIAL STATEMENTS

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2013	2012
Cash and cash equivalents	\$ 76,484,638	\$ 64,005,610
Restricted cash and cash equivalents	77,988	462,691
Short-term investments	25,270,363	-
Other receivables	4,027	119,373
Accrued interest receivable	4,249	4,422
Advances paid to contractor	2,015,420	2,109,014
Prepaid expenses	526,087	265,829
Property and equipment, net	815,468	1,052,337
Other assets	614,102	473,830
	<u>\$ 105,812,342</u>	<u>\$ 68,493,106</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 26,333,338	\$ 21,493,244
Accrued payroll and related expenses	1,184,189	995,073
Deferred rent liability	364,244	323,237
	<u>27,881,771</u>	<u>22,811,554</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS

Unrestricted		
Board-designated for specific purposes	77,988	462,691
Available for programs and general operations	77,852,583	45,218,861
	<u>77,930,571</u>	<u>45,681,552</u>
Total net assets	<u>77,930,571</u>	<u>45,681,552</u>
Total liabilities and net assets	<u>\$ 105,812,342</u>	<u>\$ 68,493,106</u>

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF ACTIVITIES

	Years Ended December 31,	
	2013	2012
Funding		
Public purpose funding	\$ 87,989,637	\$ 82,917,693
Incremental funding	74,475,379	63,163,316
Interest income	96,391	133,373
Contribution revenue	13,430	30,515
Other efficiency funding	-	123,728
Consulting revenue	-	3,055
Other income	-	200
Total funding	<u>162,574,837</u>	<u>146,371,880</u>
Expenses		
Program expenses		
Energy efficiency	118,136,627	128,359,197
Renewable resources	7,918,895	21,817,900
Consulting services	-	2,012
Total program expenses	<u>126,055,522</u>	<u>150,179,109</u>
Administrative expenses		
Management and general	2,592,480	3,371,812
Communication and outreach - general	1,677,816	1,804,623
Total administrative expenses	<u>4,270,296</u>	<u>5,176,435</u>
Total expenses	<u>130,325,818</u>	<u>155,355,544</u>
INCREASE (DECREASE) IN NET ASSETS	32,249,019	(8,983,664)
NET ASSETS, beginning of year	<u>45,681,552</u>	<u>54,665,216</u>
NET ASSETS, end of year	<u>\$ 77,930,571</u>	<u>\$ 45,681,552</u>

ENERGY TRUST OF OREGON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	Energy Efficiency	Renewable Resources	Consulting Services	Total Program Expenses	Management and General	Communication and Outreach - General	Total Administrative Expenses	Total Expenses
EXPENSES								
Incentives and program management	\$ 106,925,779	\$ 6,236,419	\$ -	\$ 113,162,198	\$ -	\$ -	\$ -	\$ 113,162,198
Payroll and related expenses	2,804,042	835,895	-	3,639,937	1,892,490	862,012	2,754,502	6,394,439
Outsourced services	3,298,598	381,093	-	3,679,691	151,676	568,505	720,181	4,399,872
Planning and evaluation	1,848,883	83,478	-	1,932,361	-	-	-	1,932,361
Customer service management	980,836	23,313	-	1,004,149	-	-	-	1,004,149
Trade Allies Network	344,662	15,599	-	360,261	-	-	-	360,261
Supplies	8,021	2,366	-	10,387	8,642	3,089	11,731	22,118
Postage and shipping	3,537	872	-	4,409	1,620	826	2,446	6,855
Telephone	3,593	1,587	-	5,180	1,841	856	2,697	7,877
Printing and publications	90,242	5,008	-	95,250	821	6,434	7,255	102,505
Occupancy expenses	202,991	64,134	-	267,125	118,134	60,739	178,873	445,998
Insurance	30,876	9,755	-	40,631	17,969	9,239	27,208	67,839
Equipment	18,745	34,589	-	53,334	5,552	2,854	8,406	61,740
Travel	42,108	16,967	-	59,075	21,685	4,158	25,843	84,918
Meetings, trainings, and conferences	28,845	12,171	-	41,016	37,988	6,059	44,047	85,063
Bank fees	-	100	-	100	5,343	-	5,343	5,443
Depreciation	50,300	17,823	-	68,123	29,273	15,051	44,324	112,447
Dues, licenses, and fees	79,301	16,239	-	95,540	25,832	3,007	28,839	124,379
Miscellaneous	3,433	-	-	3,433	18	-	18	3,451
IT services	1,371,835	161,487	-	1,533,322	273,596	134,987	408,583	1,941,905
Total expenses	\$ 118,136,627	\$ 7,918,895	\$ -	\$ 126,055,522	\$ 2,592,480	\$ 1,677,816	\$ 4,270,296	\$ 130,325,818

ENERGY TRUST OF OREGON, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Energy Efficiency	Renewable Resources	Consulting Services	Total Program Expenses	Management and General	Communication and Outreach - General	Total Administrative Expenses	Total Expenses
EXPENSES								
Incentives and program management	\$ 116,873,751	\$ 20,087,444	\$ -	\$ 136,961,195	\$ -	\$ -	\$ -	\$ 136,961,195
Payroll and related expenses	2,475,334	812,426	1,544	3,289,304	1,839,853	795,023	2,634,876	5,924,180
Outsourced services	3,966,293	443,896	-	4,410,189	211,900	648,071	859,971	5,270,160
Planning and evaluation	1,711,594	85,186	-	1,796,780	17,352	-	17,352	1,814,132
Customer service management	642,029	21,849	-	663,878	-	-	-	663,878
Trade Allies Network	359,851	26,338	-	386,189	-	-	-	386,189
Supplies	38,201	6,650	3	44,854	10,459	6,835	17,294	62,148
Postage and shipping	3,740	1,088	1	4,829	1,987	1,834	3,821	8,650
Telephone	4,104	2,159	1	6,264	2,878	810	3,688	9,952
Printing and publications	92,772	3,647	-	96,419	741	23,092	23,833	120,252
Occupancy expenses	180,711	65,205	60	245,976	119,124	61,505	180,629	426,605
Insurance	26,608	9,601	9	36,218	17,540	9,056	26,596	62,814
Equipment	10,028	35,808	3	45,839	738,113	3,413	741,526	787,365
Travel	41,348	21,475	376	63,199	29,793	3,948	33,741	96,940
Meetings, trainings, and conferences	22,039	10,778	-	32,817	41,966	4,735	46,701	79,518
Bank fees	-	-	-	-	5,030	-	5,030	5,030
Depreciation	45,999	22,662	15	68,676	30,322	15,656	45,978	114,654
Dues, licenses, and fees	93,476	15,095	-	108,571	9,472	3,004	12,476	121,047
Miscellaneous	2,738	30	-	2,768	218	31,371	31,589	34,357
IT services	1,768,581	146,563	-	1,915,144	295,064	196,270	491,334	2,406,478
Total expenses	\$ 128,359,197	\$ 21,817,900	\$ 2,012	\$ 150,179,109	\$ 3,371,812	\$ 1,804,623	\$ 5,176,435	\$ 155,355,544

ENERGY TRUST OF OREGON, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received in public purpose funding	\$ 87,989,637	\$ 82,917,693
Cash received in incremental funding	74,475,379	63,163,316
Cash received from other funders	108,262	15,466
Interest received	96,564	135,400
Cash received from other sources	13,430	30,715
Cash received from other efficiency funding	-	123,728
Cash received from consulting revenue	-	3,055
Cash paid to contractors, suppliers, and employees	(125,223,546)	(155,711,596)
Net cash from operating activities	37,459,726	(9,322,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	-	120,000
Acquisition of property and equipment	(95,038)	(396,441)
Purchases of short-term investments	(25,270,363)	-
Decrease in restricted cash and cash equivalents	384,703	476,064
Net cash from investing activities	(24,980,698)	199,623
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,479,028	(9,122,600)
CASH AND CASH EQUIVALENTS, beginning of year	64,005,610	73,128,210
CASH AND CASH EQUIVALENTS, end of year	\$ 76,484,638	\$ 64,005,610
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 32,249,019	\$ (8,983,664)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	331,907	259,983
Loss on disposal of property and equipment	-	789,438
Net changes in:		
Other receivables	115,346	(118,222)
Accrued interest receivable	173	2,027
Advances paid to contractor	93,594	329,710
Prepaid expenses	(260,258)	27,873
Other assets	(140,272)	(110,033)
Accounts payable and accrued expenses	4,840,094	(2,023,310)
Accrued payroll and related expenses	189,116	211,828
Deferred rent liability	41,007	292,147
Net cash from operating activities	\$ 37,459,726	\$ (9,322,223)

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 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 Senate passed Bill 838 (OSB 838), 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 December 31, 2014.

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, 2013 or 2012.
- **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, 2013 or 2012.

Concentrations of credit risk – Energy Trust’s cash and cash equivalents may subject Energy Trust to concentrations of credit risk, as the market value of securities is dependent on the ability of the issuer to honor its contractual commitments. All of its non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. In 2013, insurance coverage reverted to \$250,000 per depositor at each financial institution, and Energy Trust’s non-interest bearing cash balances may, again, 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. Cash and cash equivalents consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Cash	\$ 76,484,638	\$ 18,576,017
Certificates of deposit	<u>-</u>	<u>45,429,593</u>
	<u>\$ 76,484,638</u>	<u>\$ 64,005,610</u>

Restricted cash and cash equivalents – Energy Trust has money market instruments with a value of \$77,988 and \$462,691 reported as restricted cash and cash equivalents at December 31, 2013 and 2012, respectively. These funds are held in CDARS accounts for the benefit of program recipients, as designated by the Board of Directors of Energy Trust.

Short-term investments – Short-term investments consist of certificates of deposit that 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. Interest income is included in the statement of activities and is recognized when earned.

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 \$364,244 and \$323,237 for the years ended December 31, 2013 and 2012, 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. Consulting revenue and other income are recognized at the time services are provided and the revenues are earned.

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.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 \$1,279,658 and \$1,189,269 for the years ended December 31, 2013 and 2012, 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, 2013 or December 31, 2012. No interest and penalties were accrued for the years ended December 31, 2013 or 2012. Energy Trust files an exempt organization return in the U.S. federal jurisdiction and is no longer subject to income tax examinations by taxing authorities for years before 2010 for its federal filings.

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, 2013 and 2012, 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.

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value of financial instruments – At December 31, 2013 and 2012, the carrying values of cash and cash equivalents, restricted cash, 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.

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 19, 2014, which is the date the financial statements were issued.

Note 3 – Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
Computer equipment and software	\$ 1,401,967	\$ 1,347,388
Office equipment and furniture	600,662	600,662
Leasehold improvements	<u>313,333</u>	<u>287,385</u>
	2,315,962	2,235,435
Less accumulated depreciation	<u>1,500,494</u>	<u>1,183,098</u>
	<u>\$ 815,468</u>	<u>\$ 1,052,337</u>

Note 4 – Lines of Credit

Energy Trust maintains an unsecured line of credit in the amount of \$4,000,000. Interest on the line is based on the prime rate less 0.5% (2.75% at December 31, 2013). The line matures on September 5, 2014. As of December 31, 2013 and 2012, no borrowings were outstanding under the line of credit.

ENERGY TRUST OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

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. 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 and model-derived valuations whose inputs are observable or whose significant value drivers are unobservable.

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:

Short-term investments – The carrying value approximates fair value based on the short-term maturity of these investments.

Deferred compensation assets – Deferred compensation assets are comprised of investments for which 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. Deferred compensation assets are recorded in other assets within the statement of financial position.

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, 2013	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	\$ 552,641	\$ 552,641	\$ -	\$ -
Short-term investments:				
Certificates of deposit	25,270,363	-	25,270,363	-
 Total assets measured at fair value	 \$ 25,823,004	 \$ 552,641	 \$ 25,270,363	 \$ -

	Fair Value Measurements at Report Date Using:			
	Fair Value at December 31, 2012	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	\$ 409,369	\$ 409,369	\$ -	\$ -
 Total assets measured at fair value	 \$ 409,369	 \$ 409,369	 \$ -	 \$ -

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, 2013 or 2012.

As of December 31, 2013 and 2012, 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 – Public Purpose Funding and Incremental Funding

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

	<u>2013</u>	<u>2012</u>
Public purpose funding		
Portland General Electric		
Energy efficiency	\$ 26,484,406	\$ 28,119,658
Renewable resources	7,789,199	8,033,565
	<u>34,273,605</u>	<u>36,153,223</u>
PacifiCorp		
Energy efficiency	20,069,558	19,637,424
Renewable resources	5,740,135	5,530,615
	<u>25,809,693</u>	<u>25,168,039</u>
Northwest Natural - Oregon		
Energy efficiency	<u>24,201,756</u>	<u>18,990,363</u>
Northwest Natural - Washington		
Energy efficiency	<u>1,291,102</u>	<u>1,261,914</u>
Cascade		
Energy efficiency	<u>2,413,481</u>	<u>1,369,612</u>
Avista		
Energy efficiency	<u>-</u>	<u>(25,458)</u>
Total public purpose funding	<u>\$ 87,989,637</u>	<u>\$ 82,917,693</u>
Incremental funding		
Portland General Electric	\$ 48,918,174	\$ 39,630,039
PacifiCorp	<u>25,557,205</u>	<u>23,533,277</u>
	<u>\$ 74,475,379</u>	<u>\$ 63,163,316</u>
Other efficiency funding		
Clark County PUD	<u>\$ -</u>	<u>\$ 123,728</u>
Total other efficiency funding	<u>\$ -</u>	<u>\$ 123,728</u>

ENERGY TRUST OF OREGON, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7 - 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, 2013, the aggregate annual commitments under the terms of these leases are payable as follows for the years ending December 31:

2014	\$ 650,075
2015	649,393
2016	670,068
2017	692,643
2018	715,616
Thereafter	<u>430,229</u>
	<u>\$ 3,808,024</u>

Total rent expense under operating leases was \$633,515 and \$603,165 for the years ended December 31, 2013 and 2012, respectively.

Note 8 - 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, 2013 and 2012, 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 \$395,114 and \$349,142 for the years ended December 31, 2013 and 2012, 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 OF OREGON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 8 - Retirement Plans (continued)

Energy Trust made discretionary contributions to the plan totaling \$37,089 and \$52,344 during the years ended December 31, 2013 and 2012, respectively. Energy Trust recorded an asset and a liability in the amount of \$552,641 and \$409,369 as of December 31, 2013 and 2012, 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.

Note 9 - Contractual Commitments

Energy Trust enters into contract commitments for various goods and services. As of December 31, 2013, Energy Trust expects to pay no more than \$17,000,000 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, 2013 totaling approximately \$54,000,000. 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, 2013 and 2012. These amounts are unquantifiable and, as such, not disclosed in the notes to the financial statements.

Note 10 - Board-Designated Net Assets

Due to the long-term nature of certain renewable energy projects, the Board of Directors of Energy Trust has authorized amounts to be segregated into escrow accounts to be used for larger long-term projects. The funds held in escrow accounts are to be paid out under criteria specific to each project. In the financial statements, these funds are considered designated for those specific projects.

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. Since 2010, Energy Trust's executive director has served on NEEA's board of directors. Total payments to NEEA were \$8,070,000 and \$8,082,000 for the years ended December 31, 2013 and 2012, respectively.