



# Oregon

Kate Brown, Governor



550 Capitol St. NE  
Salem, OR 97301  
Phone: 503-378-4040  
Toll Free: 1-800-221-8035  
FAX: 503-373-7806  
[www.oregon.gov/energy](http://www.oregon.gov/energy)

**To:** Energy Facility Siting Council

**From:** Todd Cornett, Assistant Director for Siting/Council Secretary

**Date:** October 28, 2022

**Subject:** Agenda Item D (Information Item): The Climate Trust Financial Audit for 2021 for the October 28, 2022 EFSC Meeting

**Attachments:** Attachment 1: Report of Independent Auditors and Consolidated Financial Statements – The Climate Trust and Subsidiary – December 31, 2021 and 2020

---

To continue to be recognized as a “Qualified Organization” for the purpose of receiving funds to produce the reduction in greenhouse gas emission necessary to meet the carbon emission standard associated with energy facilities that emit carbon dioxide, The Climate Trust must comply with OAR 345-001-0010(50)(d)) (consistent with statute at ORS 469.503(2)(e)(N)(iv)):

*“Has made available on an annual basis, beginning after the first year of operation, a signed opinion of an independent certified public accountant stating that the qualified organization’s use of funds pursuant to this statute conforms with generally accepted accounting procedures except that the qualified organization shall have one year to conform with generally accepted accounting principles in the event of a nonconforming audit”*

On May 24, 2022 the attached report, “Report of Independent Auditors and Consolidated Financial Statements – The Climate Trust and Subsidiary – December 31, 2021 and 2020”, was submitted. Included on page one is the following language from Moss Adams, a public accounting firm, dated April 14, 2022 which shows compliance with this requirement:

*“In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Climate Trust and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.”*

As such, the Department considers the rule requirement to have been met.

**Attachment 1**  
**Report of Independent Auditors and Consolidated Financial**  
**Statements – The Climate Trust and Subsidiary – December 31, 2021 and 2020**



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS

**THE CLIMATE TRUST AND SUBSIDIARY**

December 31, 2021 and 2020

## Table of Contents

---

	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Consolidated Financial Statements</b>	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5
Consolidated statements of cash flows	6–7
Notes to consolidated financial statements	8–17

## **Report of Independent Auditors**

The Board of Directors  
The Climate Trust and Subsidiary

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of The Climate Trust and Subsidiary (non-profit organization and for-profit subsidiary), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of The Climate Trust and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Climate Trust and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Climate Trust and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Climate Trust and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Climate Trust and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Moss Adams LLP*

Portland, Oregon  
April 14, 2022

**The Climate Trust and Subsidiary  
Consolidated Statements of Financial Position**

---

**ASSETS**

	December 31,	
	2021	2020
Cash and cash equivalents	\$ 3,544,466	\$ 1,044,140
Restricted cash	2,911,403	4,522,358
Total cash and cash equivalents and restricted cash	6,455,869	5,566,498
Investments	13,866,108	15,056,556
Prepaid expenses and deposits	31,223	29,891
Prepaid offset purchases	908,214	1,052,959
Carbon offset inventory	3,857,198	5,378,387
Investments in pilot projects	6,851,046	6,001,322
Other assets	304,881	243,915
Total assets	\$ 32,274,539	\$ 33,329,528

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 2,896	\$ 6,993
Accrued expenses	274,919	279,294
Loan payable – pilot projects	1,989,761	3,133,805
Unearned offset revenue	12,849,012	18,829,322
Total liabilities	15,116,588	22,249,414

**NET ASSETS**

Without donor restrictions	17,157,951	11,080,114
Total net assets	17,157,951	11,080,114
Total liabilities and net assets	\$ 32,274,539	\$ 33,329,528

## The Climate Trust and Subsidiaries

### Consolidated Statements of Activities

	Years Ended December 31,	
	2021	2020
<b>REVENUES AND OTHER SUPPORT</b>		
Offset project revenue	\$ 11,318,638	\$ 6,659,867
Offset fee revenue	1,268,632	983,243
Realized gain - pilot projects	1,355,163	1,373,292
Unrealized gain (loss) - pilot projects	849,724	(2,622,019)
Contributions and grants	24,392	17,904
Investment income, net of expenses	356,194	376,442
Other income	-	10,000
	<u>15,172,743</u>	<u>6,798,729</u>
<b>EXPENSES</b>		
Program services	8,638,468	6,556,079
Management and general	683,460	608,455
	<u>9,321,928</u>	<u>7,164,534</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	5,850,815	(365,805)
<b>OTHER INCOME AND EXPENSES</b>		
Gain on extinguishment of debt	-	140,000
Realized and unrealized gains on investments	227,022	929,257
	<u>227,022</u>	<u>1,069,257</u>
<b>CHANGE IN NET ASSETS</b>	6,077,837	703,452
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS,</b> beginning of year	<u>11,080,114</u>	<u>10,376,662</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS,</b> end of year	<u>\$ 17,157,951</u>	<u>\$ 11,080,114</u>



## The Climate Trust and Subsidiaries

### Consolidated Statements of Functional Expenses

	Program Services	Management and General	2021 Total
Offset contracts	\$ 7,489,640	\$ -	\$ 7,489,640
Salaries	652,427	331,973	984,400
Professional services	163,178	192,344	355,522
Employee benefits	128,418	65,343	193,761
Office expenses	69,327	54,427	123,754
Payroll taxes	42,067	21,405	63,472
Occupancy	30,085	15,308	45,393
Interest expense	30,389	-	30,389
Travel	24,862	-	24,862
Meetings, conferences, and training	8,075	2,660	10,735
	<u>\$ 8,638,468</u>	<u>\$ 683,460</u>	<u>\$ 9,321,928</u>
	Program Services	Management and General	2020 Total
Offset contracts	\$ 5,212,310	\$ -	\$ 5,212,310
Salaries	565,523	286,749	852,272
Professional services	485,420	173,965	659,385
Employee benefits	109,897	56,511	166,408
Office expenses	61,333	55,026	116,359
Payroll taxes	37,661	19,366	57,027
Occupancy	32,744	16,838	49,582
Interest expense	33,968	-	33,968
Travel	15,728	-	15,728
Meetings, conferences, and training	1,495	-	1,495
	<u>\$ 6,556,079</u>	<u>\$ 608,455</u>	<u>\$ 7,164,534</u>

## The Climate Trust and Subsidiaries

### Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 6,077,837	\$ 703,452
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized/unrealized gain on investments	(227,022)	(929,257)
Gain on extinguishment of debt	-	(140,000)
Unrealized (gain) loss on investment in pilot projects	(849,724)	2,622,019
(Increase) decrease in		
Prepaid expenses and deposits	(1,332)	24,970
Prepaid offset purchases	144,745	-
Carbon offset inventory	1,521,189	(4,000,152)
Other assets	(60,966)	31,275
Accounts payable and accrued expenses	(8,472)	(48,856)
Unearned offset revenue	(5,980,310)	(337,965)
Net cash used in operating activities	<u>615,945</u>	<u>(2,074,514)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,601,047)	(1,847,698)
Proceeds from sale of investments	4,018,517	2,889,035
Investment in pilot projects	-	(293,252)
Net cash provided by investing activities	<u>1,417,470</u>	<u>748,085</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on loan payable – pilot projects	(1,144,044)	(1,553,555)
Proceeds from PPP loan	-	140,000
Net cash used in financing activities	<u>(1,144,044)</u>	<u>(1,413,555)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>	<u>889,371</u>	<u>(2,739,984)</u>

## The Climate Trust and Subsidiaries Consolidated Statements of Cash Flows

---

	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year	<u>\$ 5,566,498</u>	<u>\$ 8,306,482</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year	<u>\$ 6,455,869</u>	<u>\$ 5,566,498</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 30,389</u>	<u>\$ 33,968</u>

# The Climate Trust and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 1 – Description of Organization

Oregon Climate Trust (OCT) was originally formed in 1997. On August 4th, 2016 OCT formed a wholly owned subsidiary, Climate Trust Capital LLC to serve as the management company (the “Management Company”) to administer a limited partnership carbon investment pilot fund (“Fund I”). The Management Company entered into agreements with Climate Trust Capital Fund I GP, LLC and Climate Trust Capital Fund I, LP (collectively, Climate Trust Capital, “CTC”). OCT is the sole member of the Management Company. The Management Company is the sole member of Climate Trust Capital Fund I GP, LLC. Climate Trust Capital Fund I GP, LLC is the general partner in Climate Trust Capital Fund I, LP. Fund I is structured to receive program-related investment loan proceeds from The David and Lucile Packard Foundation (See Note 9) and operates in accordance with OCT’s exempt purpose. During January 2019, CTC received the remaining balance of loan proceeds and became fully invested in seven carbon investment Fund I pilot projects.

OCT’s and CTC’s (collectively, The Climate Trust and Subsidiary, “TCT”, or the Organization) mission is to combat climate change by funding and managing projects that reduce greenhouse gas emissions.

TCT develops resources, programs and project portfolios to reduce, eliminate, sequester, or avoid carbon dioxide equivalents emissions. TCT acts on behalf of utilities, corporations, government agencies and private entities to stimulate, support and finance the supply of greenhouse gas emission reductions based on regulatory requirements and voluntary climate change commitments.

TCT receives funds from the management of regulatory carbon offset programs, voluntary carbon offset acquisition programs and the sale of voluntary and California compliance offsets to third-party corporate buyers. As a result, TCT evaluates, implements, finances, monitors and administers contracts with third parties that produce measurable and verifiable greenhouse gas reductions or “carbon offsets”. Carbon offset contracts are awarded to other entities in accordance with the mission of TCT which also receives contributions and earned revenue from both public and private entities.

The Organization’s track record is based on over two decades of experience developing and managing carbon offset projects. TCT invests and engages in the early stages of project development, when owners are seeking to reduce risk and need operational expertise to ensure their carbon projects are successful. TCT’s carbon offset project development expertise and support for climate mitigation policies has encouraged mission-aligned partners to enter the carbon markets.

#### **Offset funds and definitions**

*Offset funds* – If a power facility elects to use the monetary path for compliance, the amount of emission reduction needed to meet the CO<sub>2</sub> Standard is factored to calculate the amount of offset funds the certificate holder must provide to a “qualified organization,” TCT in this case. TCT is to use 80% of the offset funds to “contract for the implementation of offsets directly”.

*Obligated* – Offset funds that are committed to meet a future payable for offsets via an Emission Reduction Purchase Agreement (ERPA).

*Unobligated* – Offset funds that the Organization is required to obligate to meet a future ERPA payable.

# The Climate Trust and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 1 – Description of Organization (continued)

*Deobligated* – Offset funds that were committed via an ERPA, but due to ERPA under-performance or non-performance, are reallocated to an unobligated status.

*Retirement* – The act of declaring the receipt of Verified Emission Reductions (offsets) as retired for perpetuity predominately on a third party offset project certifying body's registry and internally on TCT's Carbon Registry so that they cannot be double counted.

### Note 2 – Summary of Significant Accounting Policies

#### Principles of consolidation

The consolidated financial statements include the accounts of Oregon Climate Trust and Climate Trust Capital. All intercompany transactions and balances have been eliminated.

#### Basis of accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) in the United States of America.

#### Basis of presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as without donor restrictions or net assets with donor restrictions. Net assets without donor restrictions are those that are not subject to donor-imposed stipulations. Net assets with donor restrictions are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time. There were no net assets with donor restrictions as of December 31, 2021 and 2020.

#### Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents include restricted cash required to be held in separate bank accounts which totaled \$2,911,403 and \$4,522,358 at December 31, 2021 and 2020, respectively. These restricted cash accounts are pledged as security to the funder for performance of contractual obligations. Cash and cash equivalents held for long-term investment purposes are excluded from cash and cash equivalents and are included in investments.

#### Investments

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), net of investment expenses is included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

# The Climate Trust and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

#### Prepaid offset purchases

Prepaid offset purchases represent payments to suppliers for carbon credits to be delivered in future periods. Management has evaluated the financial stability and past performance history of such suppliers and has recorded prepaid balances from two suppliers that meet its criteria.

#### Carbon offset inventory

Carbon offset inventory represents offsets transferred to TCT upon receipt of payment. Offsets may be utilized to provide utilities and other companies access to quality carbon credits. Offset inventory is recorded at the lower of cost or net realizable value. Cost is determined using the specific identification method.

#### Investments in pilot projects

Investment in pilot projects represents the 10 projects funded with loan proceeds under a Credit Agreement with The David and Lucile Packard Foundation (the Foundation). The funds were deployed to the project owners for the pre-purchase of carbon credits from forestry, livestock digester and grassland conservation projects (See Note 9). The investments are secured by carbon credits to be produced in future years. Management has evaluated the financial stability of the project owners and provided due diligence documentation to the Foundation prior to the disbursement of the loan funds and has determined no impairment has occurred.

The Organization has entered into a carbon finance investment agreement with each project owner that provides 100% of carbon credits produced will be transferred to the Organization until Net Revenue (as defined by the agreement) equals the investment amount. Subsequently, the Net Revenue is shared with the project owner until the agreement terminates after the 10 year crediting period expires.

The Organization estimates the net present value of the projected future cash flows over the term of the agreement using the discount rate applied when each original investment was made, which approximates the equity method. Discount rates ranged from 8.0% to 20.41% as of December 31, 2021 and 2020. During the year ended December 31, 2020 the value decreased as a result of decreased demand brought on by COVID-19, resulting in an unrealized loss of approximately \$2.6 million. During the year ended December 31, 2021 the value increased resulting in an unrealized gain of approximately \$850,000.

#### Revenue recognition

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, offset project funds received but not yet obligated are recorded as unearned offset revenue. Offset project revenue is recognized when contracted carbon offsets are acquired and retired, which is when the Organization's performance obligations have been met. Revenues associated with the purchase and sale of carbon offsets are recorded when the title passes.

## **The Climate Trust and Subsidiaries**

### **Notes to Consolidated Financial Statements**

---

#### **Note 2 – Summary of Significant Accounting Policies (continued)**

Offset fee revenues are recognized as revenue as selection, contracting and management services are performed. Fixed-fee management contract revenues are recognized using the percentage of completion method of accounting. Percentage of completion is determined by estimating expected total effort percentages by year to allocate contract prices and applying such percentages to the total contractual fee revenue amount and adjusting revenue earned as services are performed. Offset fee revenues received but not yet earned are recorded as unearned offset fee revenue. Other service revenues are recognized at the time services are provided as the Organization's performance obligations are met.

There is no variable consideration on the Organization's contracts and the contracts do not include significant financing components. Payments are typically invoiced upon delivery of the contracted credits to the buyer's registry account and due two to three weeks thereafter.

#### **Contributions and grants**

Contributions and grants, including unconditional promises to give, are recognized as revenues in the period the commitment is received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met and the barrier to entitlement is considered overcome. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

#### **Income taxes**

OCT 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 OCT has no activities subject to unrelated business income tax. OCT is not a private foundation.

OCT 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. OCT recognizes interest and penalties related to income tax matters, if any, in management and general expense.

OCT had no unrecognized tax benefits at December 31, 2021 and 2020. No interest and penalties were accrued for the years ended December 31, 2021 and 2020. OCT files an exempt organization return in the U.S. federal jurisdiction.

The CTC's are single member limited liability corporations or limited partnerships with no limited partners, all controlled by OCT and considered disregarded entities for tax purposes.

# The Climate Trust and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 2 – Summary of Significant Accounting Policies (continued)

#### Expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated directly to the programs and supporting services benefited.

#### Use of estimates

The preparation of consolidated financial statements is in conformity with accounting principles generally accepted in the United States of America requires management to 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Subsequent events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before consolidated financial statements are available to be issued. TCT recognizes in the consolidated financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. TCT's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position, but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued. TCT has evaluated subsequent events through April 14, 2022, which is the date the consolidated financial statements were available to be issued.

### Note 3 – Liquidity

As of December 31, 2021 and 2020, financial assets and liquidity resources, without restrictions on limiting their use, available within one year for general expenditure, such as operating expenses, scheduled principal payments, and project development costs not financed with debt, were as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,544,466	\$ 1,044,140
Carbon offset inventory	3,857,198	5,378,387
Investments	<u>13,866,108</u>	<u>15,056,556</u>
Total financial assets available within one year	<u>\$ 21,267,772</u>	<u>\$ 21,479,083</u>



## The Climate Trust and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 3 – Liquidity (continued)

The Organization's Reserve Policy requires, at a minimum, cash on hand equal to 6 months of operating expenses. The Organization's cash flows have seasonal variations during the year attributable to the timing of payment for and delivery of carbon offset credits. Carbon offset inventory, unobligated to a specific program, may be transacted to generate income for operating expenditures.

#### Note 4 – Investments

Investments are valued at their fair value in the statements of financial position. Net appreciation in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is shown in the statements of activities. Interest income is accrued as earned.

In order to present operating results of the Organization's ongoing endeavors, the statement of activities presents the net realized/unrealized gain on investments separate from operating activities.

Total investment return consists of the following components for the years ended:

	December 31,	
	2021	2020
Operating		
Investment income	\$ 404,194	\$ 424,442
Investment fees	(48,000)	(48,000)
	356,194	376,442
Nonoperating		
Net realized/unrealized gain	227,022	929,257
Total investment return	\$ 583,216	\$ 1,305,699

#### Note 5 – Unearned Offset Revenue

The Organization has entered into several long-term purchase agreements for the supply and purchase of carbon offset credits each year. Purchase commitments under these arrangements are included in the unearned offset revenue balance of \$12,849,012 and were as follows at December 31, 2021:

Year Ended December 31,	2022	\$ 4,080,482
	2023	3,629,796
	2024	884,450
	2025	888,124
	2026	432,919
	Thereafter	191,200
		\$ 10,106,971

## The Climate Trust and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 6 – Concentration of Revenue

For 2021, offset revenues from 12 contracts represented 59% of total project related revenue. For 2020, offset revenues from nine contracts represented 54% of total project related revenue.

#### Note 7 – Line of Credit and Long-Term Debt

TCT has a \$1,000,000 line of credit from Pacific West Bank with interest payable monthly at the bank's prime rate less .50% (3.25% at December 31, 2021). The line matures in December 2022 and is secured by a commercial security agreement. Advances outstanding on the line were \$0 at December 31, 2021 and 2020. The agreement contains specific financial covenants, such as a line of credit clean down and minimum unrestricted net assets.

TCT has a \$4,000,000 maximum margin line of credit with Charles Schwab & Co. Inc., which accrues interest at the greater of the Federal Funds Target Rate or 0.25% in the event the Federal Funds Target Rate is less than 0.25%, plus 75 basis points (1% at December 31, 2021). The margin agreement is in effect until December 31, 2024. Advances outstanding under the margin were \$0 and \$1,534,168 at December 31, 2021 and 2020, respectively, and were recorded as a reduction in the Organization's cash balances in the statements of financial position.

#### Note 8 – CTC Credit and Put Option Agreements

On September 7, 2016, Fund I entered into a \$2,750,004 maximum Put Option as a requirement of the Credit Agreement with The David and Lucile Packard Foundation. The Put Option gives Fund I the right, but not the obligation, to sell up to \$2,750,004 of credits to Oregon Climate Trust over the life of the Credit Agreement. As of December 31, 2017, \$2,750,004 was obligated to the Put Option through an internal accounting entry within the Unearned Offset Revenue account, which reclassified the \$2,750,004 from the unobligated category to the obligated category. Because both the unobligated and obligated categories are in Unearned Offset Revenue, there was no net effect on this account. During 2020 there was no activity and \$2,750,004 remained in the obligated category. During 2021 \$760,243 was deobligated and \$1,989,761 remained in the obligated category.

#### Note 9 – Loan Payable – Pilot Projects

On October 10, 2016, CTC executed a Credit Agreement with the David and Lucile Packard Foundation for consideration of loan proceeds up to \$5,500,000. Interest is payable quarterly and accrues on the outstanding principal balance at a rate equal to 1.0% per annum, simple interest. Principal payments begin twenty-four months after the first draw on the loan. As of December 31, 2021, \$1,989,761 was outstanding under the Credit Agreement. The difference between the amount of the loan and the amount deployed is held in a CTC cash account and utilized for the costs associated with development of the carbon credits.

## The Climate Trust and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 9 – Loan Payable – Pilot Projects (continued)

The quarterly principal payments are based upon net cash received from the sale of carbon credits, with minimum cumulative payments to be met as follows:

<u>Percent of Total Advances</u>	<u>Due By</u>
36%	May 2023
82%	May 2025

The remaining balance outstanding is due in full in May of 2026.

#### Note 10 – Lease Commitment

TCT leases office space under a lease agreement through December 31, 2023. TCT also has a lease agreement for their copier through November 2024. Lease expense for the years ended December 31, 2021 and 2020 was \$45,393 and \$49,582, respectively.

Future annual minimum lease payments under these agreements are as follows:

2022	\$ 65,043
2023	66,515
2024	<u>1,474</u>
	<u>\$ 133,032</u>

#### Note 11 – Retirement Plan

TCT has a defined contribution 401(k) plan covering all eligible employees. The Organization makes contributions to the plan up to 4% of all eligible participants' compensation. Contributions to the plan for 2021 and 2020 were \$24,986 and \$28,479, respectively.

#### Note 12 – Concentrations of Credit Risk

The Organization's cash accounts are maintained in three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. Balances in excess of insured limits were approximately \$5,324,557 and \$6,191,766 as of December 31, 2021 and 2020, respectively. Uninsured balances at December 31, 2021 and 2020 included \$55,978 and a credit of \$1,534,168 in cash balances held in investment brokerage accounts, respectively. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position. TCT's investment return, utilizing fixed income securities, is exposed to interest rate changes.

# The Climate Trust and Subsidiaries

## Notes to Consolidated Financial Statements

---

### Note 13 – Commitments and Contingencies

TCT has commitments under various carbon offset and other contracts whereby additional payments or receipts are due contingent upon the companies or TCT fulfilling certain obligations. Due to the uncertain nature of these commitments, future anticipated payments and receipts are not determinable and are not reported in the accompanying consolidated financial statements.

### Note 14 – Related Party Disclosure

The Oregon Carbon Dioxide Standard (the Standard) requires energy facilities to demonstrate compliance by entering into a Memorandum of Understanding with the Organization. As a matter of regular business, TCT has received funding under the Standard that involves organizations in which two Board Members are employed. TCT's conflict of interest policy requires that all Board Members disclose potential conflicts and refrain from voting on any actions that pose a possible or actual conflict of interest.

### Note 15 – Fair Value Measurements

Assets and liabilities recorded at fair value in the consolidated statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

**Level 1** – Unadjusted quoted prices in active markets for identical assets and liabilities.

**Level 2** – Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

**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.

TCT 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 cash and cash equivalents, U.S. equities, and fixed income investments. 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.

## The Climate Trust and Subsidiaries

### Notes to Consolidated Financial Statements

---

#### Note 15 – Fair Value Measurements (continued)

There were no changes in the valuation methodologies or assumptions used by TCT for the years ended December 31, 2021 and 2020. Fair values of assets measured on a recurring basis were as follows:

	December 31, 2021			
	Fair Value	Level 1	Level 2	Level 3
U.S. equities	\$ 5,183,839	\$ 5,183,839	\$ -	\$ -
Fixed income securities				
Corporate bonds, mortgage pools and US treasury bonds	8,682,269	-	8,682,269	-
	<u>\$ 13,866,108</u>	<u>\$ 5,183,839</u>	<u>\$ 8,682,269</u>	<u>\$ -</u>
	December 31, 2020			
	Fair Value	Level 1	Level 2	Level 3
U.S. equities	\$ 3,348,493	\$ 3,348,493	\$ -	\$ -
Fixed income securities				
Corporate bonds, mortgage pools and US treasury bonds	11,708,063	-	11,708,063	-
	<u>\$ 15,056,556</u>	<u>\$ 3,348,493</u>	<u>\$ 11,708,063</u>	<u>\$ -</u>

Fair values for equities and mutual funds are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values for investments in fixed income securities are provided primarily by custodians and are based on pricing models that incorporate available trade, bid and other market information.



MOSSADAMS