REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

# THE CLIMATE TRUST AND SUBSIDIARY

December 31, 2020 and 2019

MOSSADAMS

# Table of Contents

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# Report of Independent Auditors

The Board of Directors
The Climate Trust and Subsidiary

## Report on the Financial Statements

We have audited the accompanying 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, 2020 and 2019 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.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Climate Trust and Subsidiary as of December 31, 2020 and 2019 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.

Moss Adams LLP

Portland, Oregon
April 8, 2021

## ASSETS

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 1,044,140 | $ 3,678,118 |
| Restricted cash | 4,522,358 | 4,628,364 |
| Total cash and cash equivalents and restricted cash | 5,566,498 | 8,306,482 |
| Investments | 15,056,556 | 15,168,636 |
| Prepaid expenses and deposits | 29,891 | 54,861 |
| Prepaid offset purchases | 1,052,959 | 1,052,959 |
| Carbon offset inventory | 5,378,387 | 1,378,235 |
| Investments in pilot projects | 6,001,322 | 8,330,089 |
| Other assets | 243,915 | 275,190 |
| Total assets | $ 33,329,528 | $ 34,566,452 |

## LIABILITIES AND NET ASSETS

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| LIABILITIES | | |
| Accounts payable | $ 6,993 | $ 33,611 |
| Accrued expenses | 279,294 | 301,532 |
| Loan payable – pilot projects | 3,133,805 | 4,687,360 |
| Unearned offset revenue | 18,829,322 | 19,167,287 |
| Total liabilities | 22,249,414 | 24,189,790 |
| NET ASSETS | | |
| Without donor restrictions | 11,080,114 | 10,376,662 |
| Total net assets | 11,080,114 | 10,376,662 |
| Total liabilities and net assets | $ 33,329,528 | $ 34,566,452 |

## The Climate Trust and Subsidiaries
### Consolidated Statements of Activities

| | Years Ended December 31, 2020 | 2019 |
|---|---|---|
| REVENUES AND OTHER SUPPORT | | |
| Offset project revenue | $ 6,659,867 | $ 7,219,883 |
| Offset fee revenue | 983,243 | 1,226,358 |
| Realized gain - pilot projects | 1,373,292 | 823,750 |
| Unrealized (loss) gain - pilot projects | (2,622,019) | 3,717,274 |
| Contributions and grants | 17,904 | 41,459 |
| Investment income, net of expenses | 376,442 | 468,877 |
| Other income | 10,000 | - |
| Total revenues and other support | 6,798,729 | 13,497,601 |
| EXPENSES | | |
| Program services | 6,556,079 | 7,187,128 |
| Management and general | 608,455 | 614,972 |
| Total expenses | 7,164,534 | 7,802,100 |
| INCOME (LOSS) FROM OPERATIONS | (365,805) | 5,695,501 |
| OTHER INCOME AND EXPENSES | | |
| Gain on extinguishment of debt | 140,000 | - |
| Realized and unrealized gains on investments | 929,257 | 783,160 |
| Total other income and expenses | 1,069,257 | 783,160 |
| CHANGE IN NET ASSETS | 703,452 | 6,478,661 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year | 10,376,662 | 3,898,001 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year | $ 11,080,114 | $ 10,376,662 |


See accompanying notes.

| | 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 |
| | $ 6,556,079 | $ 608,455 | $ 7,164,534 |

| | Program Services | Management and General | 2019 Total |
|---|---|---|---|
| Offset contracts | $ 6,244,814 | $ - | $ 6,244,814 |
| Salaries | 520,814 | 386,070 | 906,884 |
| Professional services | 130,432 | 101,624 | 232,056 |
| Employee benefits | 77,724 | 40,084 | 117,808 |
| Office expenses | 56,628 | 41,587 | 98,215 |
| Payroll taxes | 37,383 | 19,279 | 56,662 |
| Occupancy | 36,948 | 19,055 | 56,003 |
| Interest expense | 55,390 | - | 55,390 |
| Travel | 24,077 | 6,019 | 30,096 |
| Meetings, conferences, and training | 2,918 | 1,254 | 4,172 |
| | $ 7,187,128 | $ 614,972 | $ 7,802,100 |

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

| | Years Ended December 31, 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | $ 703,452 | $ 6,478,661 |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Net realized/unrealized gain on investments | (929,257) | (783,160) |
| Gain on extinguishment of debt | (140,000) | - |
| Unrealized loss (gain) on investment in pilot projects | 2,622,019 | (3,717,274) |
| (Increase) decrease in | | |
| Accounts, grants, and contracts receivable | - | 1,323 |
| Prepaid expenses and deposits | 24,970 | (39,171) |
| Prepaid offset purchases | - | 330,107 |
| Carbon offset inventory | (4,000,152) | 884,265 |
| Other assets | 31,275 | (275,190) |
| Accounts payable and accrued expenses | (48,856) | 159,886 |
| Unearned offset revenue | (337,965) | (3,789,120) |
| Net cash used in operating activities | (2,074,514) | (749,673) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (1,847,698) | (16,715,227) |
| Proceeds from sale of investments | 2,889,035 | 19,892,686 |
| Investment in pilot projects | (293,252) | (260,823) |
| Net cash provided by investing activities | 748,085 | 2,916,636 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on line of credit | - | (107,014) |
| Advances on loan payable – pilot projects | - | 264,244 |
| Payments on loan payable – pilot projects | (1,553,555) | (796,490) |
| Proceeds from PPP loan | 140,000 | - |
| Net cash used in financing activities | (1,413,555) | (639,260) |
| CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | (2,739,984) | 1,527,703 |

| | Years Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, beginning of year | $ 8,306,482 | $ 6,778,779 |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, end of year | $ 5,566,498 | $ 8,306,482 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid for interest | $ 33,968 | $ 55,390 |

See accompanying notes.

### 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 CO2 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.

## 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 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, 2020 and 2019.

### 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 $4,522,358 and $4,628,364 at December 31, 2020 and 2019, 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.

**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 seven 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 changed its accounting estimate for investments in pilot projects during the year ended December 31, 2019. The change is a result of modifying the estimating techniques affecting the carrying amount of the investment due to increased activity and revenue generation in the projects during 2019. The investment values increased significantly during the year ended December 31, 2019 resulting in an unrealized gain of approximately $3.7 million due to higher than expected carbon offset volume produced and higher than expected offset prices. During the year ended December 31, 2020 the value decreased resulting in an unrealized loss of approximately $2.6 million. 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 the Fund made each of its original investments, which approximates the equity method. Discount rates ranged from 8.0% to 20.41% as of December 31, 2020 and 2019.

**Revenue recognition**
In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606 as of January 1, 2019, 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.

### 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, 2020 and 2019. No interest and penalties were accrued for the years ended December 31, 2020 and 2019. 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.

### 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 supported 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 8, 2021, which is the date the consolidated financial statements were available to be issued.

### Note 3 – Liquidity

As of December 31, 2020, and 2019, 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:

| | 2020 | 2019 |
|---|---|---|
| Cash and cash equivalents | $ 1,044,140 | $ 3,678,118 |
| Carbon offset inventory | 5,378,387 | 1,378,235 |
| Marketable securities | 15,056,556 | 15,168,636 |
| Total financial assets available within one year | $ 21,479,083 | $ 20,224,989 |

### 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, | |
|---|---|---|
| | 2020 | 2019 |
| Operating | | |
| Investment income | $ 424,442 | $ 516,902 |
| Investment fees | (48,000) | (48,025) |
| | 376,442 | 468,877 |
| Nonoperating | | |
| Net realized/unrealized gain | 929,257 | 783,160 |
| Total investment return | $ 1,305,699 | $ 1,252,037 |

### 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 $18,829,322 and were as follows at December 31, 2020:

| | | |
|---|---|---|
| Year Ended December 31, | 2021 | $ 4,213,353 |
| | 2022 | 2,769,810 |
| | 2023 | 2,145,744 |
| | 2024 | 884,450 |
| | 2025 | 888,124 |
| | Thereafter | 3,477,829 |
| | | $ 14,379,310 |

### Note 6 – Concentration of Revenue

For 2020, offset revenues from nine contracts represented 54% of total project related revenue. For 2019, offset revenues from two contracts represented 33% of total project related revenue.

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

TCT has a $1,000,000 line of credit from First Republic Bank with interest payable monthly at the bank's prime rate less .50% (3.25% at December 31, 2020). The line matures in November 2021 and is secured by a commercial security agreement. Advances outstanding on the line were $0 at December 31, 2020 and 2019. 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% in the event the Federal Funds Target Rate is less than 0%, plus 75 basis points (1% at December 31, 2020). The margin agreement will be in effect until May 20, 2021. Advances outstanding under the margin were $1,534,168 and $0 at December 31, 2020 and 2019, respectively, and were recorded as a reduction in the Organization's cash balances in the statements of financial position.

In May 2020, the Organization was granted a loan under the Paycheck Protection Program offered by the Small Business Administration (SBA) under the CARES Act, section 7(a)(36) of the Small Business Act for $140,000. In December 2020, the Organization was granted full forgiveness of the loan. The Organization accounted for the funds as non-operating income.

### 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 2019 and 2020, there was no activity and $2,750,004 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, 2020, $3,133,805 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 quarterly principal payments are based upon net cash received from the sale of carbon credits, with minimum cumulative payments to be met as follows:

| Percent of Total Advances | Due By |
|---|---|
| 18% | May 2021 |
| 36% | May 2023 |
| 82% | May 2025 |

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

### Note 10 – EPAF Credit and Put Option Agreement

On August 1, 2017, Oregon Climate Trust entered into a grant agreement with the United States Department of Agriculture to pilot the Environmental Price Assurance Facility (EPAF). The EPAF grant agreement was terminated by the Organization in September 2019. The grant agreement required Oregon Climate Trust to segregate a certain amount to purchase offsets through put option agreements entered under the EPAF. During 2017, $2,000,000 was obligated to the put option through an internal accounting entry within the Unearned Offset Revenue account, which reclassified the $2,000,000 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 2019 the $2,000,000 was removed from the obligated category because the organization officially terminated the grant agreement.

### Note 11 – 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, 2020 and 2019 was $49,582 and $56,003, respectively.

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

| | | | |
|---|---|---|---|
| Year Ended December 31, | 2021 | $ | 57,703 |
| | 2022 | | 65,043 |
| | 2023 | | 66,515 |
| | 2024 | | 1,474 |
| | | $ | 190,735 |

### Note 12 – 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 2020 and 2019 were $28,479 and $25,844, respectively.

### Note 13 – 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 $6,191,766 and $6,898,108 as of December 31, 2020 and 2019, respectively. Uninsured balances at December 31, 2020 and 2019 included a credit of $1,534,168 and a positive $658,374 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.

### Note 14 – 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 15 – 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 involve organizations in which one Board Member is an employee. 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 16 – 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.

**Note 16 – Fair Value Measurements (continued)**

There were no changes in the valuation methodologies or assumptions used by TCT for the years ended December 31, 2020 and 2019. Fair values of assets measured on a recurring basis were as follows:

| | 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 | - |
| | $ 15,056,556 | $ 3,348,493 | $ 11,708,063 | $ - |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| U.S. equities | $ 2,797,940 | $ 2,797,940 | $ - | $ - |
| Fixed income securities | | | | |
| Corporate bonds, mortgage pools and US treasury bonds | 12,370,696 | - | 12,370,696 | - |
| | $ 15,168,636 | $ 2,797,940 | $ 12,370,696 | $ - |

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.

**Note 17 – Risks and Uncertainties**

During 2020, an outbreak of a novel coronavirus (COVID-19) occurred in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. The Organization is unable to predict the ultimate impact that it may have on the Organization's operations, financial position or cash flows. The severity of impacts on the global economy and the continued disruptions to and volatility in the financial markets remain unknown. The extent to which the Organization may be impacted by the COVID-19 pandemic will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including the speed of economic recovery as well as any new information, if any, which may emerge concerning the severity of the outbreak and actions by government authorities to contain the outbreak or treat its impact.

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