The Climate Trust

The Climate Trust promotes climate change solutions by providing high quality greenhouse gas offset projects and advancing sound offset policy.
The Climate Trust is leading the U.S. carbon offset market by establishing a benchmark of the highest standards for all our carbon offset projects. In a time of regulatory uncertainty, The Climate Trust is forging ahead with solutions to global warming pollution by investing in quality projects while minimizing our risk. In 2003 and 2004 The Climate Trust has successfully managed our offset portfolio and grew our Partnership Program to provide everyone access to the emerging U.S. carbon market.

Our highlights in 2003/2004 include:

- Purchased offsets from a new industrial energy efficiency project with the Blue Heron Paper Company.
- Advised the West Coast Governors Initiative in developing climate change mitigation strategies. Contributed to Regional Greenhouse Gas Initiative.
- Solicited truck stop idle reduction technology to Oregon and Washington with funds granted by US EPA and Oregon State University.
- Managed the launch of Cool Climate Concrete, an offset project dedicated to expanding the use of low carbon concrete. Concrete is one of the highest carbon dioxide emission producers of any material used worldwide.
- Successfully completed our first report to the Oregon Energy Facility Siting Council. The Council certifies our qualification to implement the Oregon Standard, and requires a report on our activities every five years.

The Climate Trust forecast for 2005: expect to see a lot of offset activity. We will be soliciting for approximately $5 million of new offset projects to offset emissions from power plants in Oregon and Montana. Additionally we will complete a purchase agreement to offset emissions from two Massachusetts power plants. Your can track our progress in 2005 at our newly launched web site www.climatetrust.org.

Alan Zelenka
Board Chair
The Climate Trust has put into place a diverse and high quality offset project portfolio that has made us one of the largest and most experienced offset buyers in the U.S. and world markets. All of the offset funds we receive are invested in high-quality offset projects.

**Ensuring Quality and Mitigating Risk**

Ensuring offset quality and mitigating risk to our offset funding is the top priority for our organization. We address risks using three tools: due diligence, portfolio diversity, and contract structure.

The first tool is to perform a thorough review of the offset project concept and due diligence on proposing organizations prior to entering into a contract for offsets.

The second risk mitigation tool involves portfolio diversity, similar to that provided by a mutual fund. We have invested our offset funds into a wide variety of projects, so that if one type of project fails or under performs for any reason, this risk is minimized by other projects that are performing as or better than expected. The portfolio as a whole is more resilient against risk than is any individual project in the portfolio.

The third risk mitigation tool is derived from how we structure our offset contracts. We place a strong focus on preserving our capital, reducing the risk of under performance, and defining the ownership of offsets.

**Preserving Our Capital**

Wherever possible, we seek financial guarantees with security interest, ensuring capital is returned if no offsets are delivered. With few exceptions, our contracts are structured to pay after the event has created offsets. For example, payments are triggered by the installation of energy efficiency measures, the planting of trees, or the commercial operation of a cogeneration system.

In total, across the 12 projects that have signed contracts with The Climate Trust, all but one had some form of capital preservation built into their contracts. The 11 projects with capital preservation include over 84% of money put into offset contracts. The other project is a programmatic offset with specific ton-based performance milestones that allow The Climate Trust to terminate further funding if these milestones are not met.
Reducing Risk of Underperformance
Reimbursements for Deficits

Some projects can not be contracted on a pay for performance basis. In the example of our project to optimize traffic signals, the Portland Office of Sustainable Development (POSD) needed up front funding to install computer and tracking software, monitor intersections and install lights. In such a circumstance, The Climate Trust still needs assurances that the total tons paid for by our offset funds will be delivered. In this example we required POSD to monitor the performance of the project half way through the project life. If at that time it is projected that all tons will not be delivered, POSD is required to either pay us for the deficit or buy acceptable offsets for us on the market to make up for the deficit.

Reducing the Risk of Under Performance

To reduce the risk of under performance, most of our offset contracts include some form of guarantee that CO$_2$ offsets will occur from the project. We work within the constraints of each proposing organization so the guarantees are structured effectively. The best form of guarantee is not paying until the offset has been verified. For only one of our projects were the tons paid for before the project measures were implemented. Many projects also include a requirement to replace tons or return funds if monitoring and verification indicates that a shortfall has occurred. For offsets from programs, as opposed to projects, we have included performance milestones allowing The Climate Trust to de-obligate funds as a result of an offset shortfall.

Defining the Ownership of Offsets

Each contract includes extensive legal definitions regarding identification and ownership of the offsets. Our contracts require that the offset developer transfer any and all CO$_2$ reduction rights resulting from their project to The Climate Trust in exchange for funding. The offset developer (and other implementation partners) is prohibited from selling the same tons to another entity, using the tons for other purposes, or selling the CO$_2$ in other environmental products (e.g., Green Tags). Each contract also includes a requirement for written disclaimers from all project partners and participants, disclosure of sale to regulatory authorities and other parties, and definitions on what “bragging rights” are acceptable. In our programmatic offsets in which participants enroll in a program operated
by the offset developer, our offset contracts require participation agreements to create a clear ownership trail to tons of CO₂. These documents include a Bill of Sale, an Annual Offset Certificate, and third party verification of the quantity of offsets delivered.

**Delivering Quality Offsets**

The Climate Trust’s sole purpose is to ensure that high-quality, cost-effective offsets become a permanent and viable nexus between those responsible for greenhouse gas emissions, and the very real, currently available solutions to reduce and eliminate those emissions over time.

It is difficult to overestimate the importance of The Climate Trust’s purchase of offset credits in the past and going forward. Nations around the world are moving ahead with the first great experiment in a global, regulated trading market for greenhouse gas emission allowances and project-based offsets under the auspices of the Kyoto Treaty.

While the U.S. is not a participant in the Kyoto trading scheme, it will eventually be part of some other global market. We believe the U.S. will soon be the host of the largest emission trading market in the world, and that market will include project-based offsets.

In the interim, The Climate Trust focuses on setting high standard through the purchase of high-quality, cost-effective offsets. Here is an update on our current offset portfolio:
Efficiency Upgrade at Paper Manufacturing Facility

**Description:**
The project will retrofit and upgrade a considerable amount of equipment at the Blue Heron Paper Mill in order to increase the overall efficiency of the plant’s paper manufacturing process. The offsets are generated through reduced use of electricity.

**Status:**
Construction is underway at Blue Heron.

**What’s Next:**
After construction is completed, there will be a short period of equipment testing, and then the project will be fully operational and offsets will flow to The Climate Trust.

Portland Building Energy Efficiency Program

**Description:**
The Portland Office of Sustainable Development (POSD) is managing a program that seeks to install energy efficiency measures—such as EnergyStar® windows, floor and ceiling insulation, and sophisticated thermostat contracts—in multifamily housing (apartments) and new commercial buildings. The offsets are generated through reduced use of electricity.

**Status:**
Program is in its second year of operation.

**What’s Next:**
The Energy Efficiency Program delivered offsets well ahead of schedule and as a result, POSD met their contractual obligations 24 months ahead of schedule.

Reforestation in the Deschutes River Basin

**Description:**
The Deschutes Resource Conservancy (DRC) is recruiting private landowners to reforest rivers and streams in an effort to generate carbon offsets and repair the overall health of this riparian area that has been impacted by logging and livestock grazing. Carbon offsets are generated by the carbon sequestered in the planted trees.

**Status:**
DRC has been successful in reforesting approximately 335 acres.

**What’s Next:**
The program is scheduled to run for several more years.
Ecuadorian Rainforest Restoration

*Description:*
This project seeks to reforest more than 680 acres of highly degraded rainforest in northwest Ecuador. The project is located in one of the most biologically diverse areas on Earth.

*Status:*
The project site has been reforested.

*What’s Next:*
The Jatun Sacha Foundation coordinating with Conservation International will continue to monitor and manage the progress of reforested areas within the project site.

Preservation of Native Northwest Forest

*Description:*
This project uses carbon funding to support the work of the Lummi Indian tribe to acquire previously logged forest land and manage it to permanent old growth.

*Status Update:*
Project is still under implementation.

*What’s Next:*
The Climate Trust will work with the Lummi Indian Tribe to develop procedures for both the monitoring and verification of the carbon and the implementation of the permanent easement agreement.

Lumber Mill Cogeneration

*Description:*
The project looks to install a back pressure steam turbine at one of the facilities of Collins Pine, a lumber products manufacturing company. Electricity from the turbine will displace grid electricity and thus generate carbon offsets.

*Status:*
Project implementation was delayed due to economic downturn.

*What’s Next:*
Collins Pine is in the process of retrofitting the area of their facility that will utilize the steam turbine.
Cool Climate Concrete

*Description:*
This project encourages concrete manufacturers and ready-mix companies to use blended cement. In blended cement, one of the ingredients in concrete, industrial byproducts replace the manufactured cement. This eliminates a portion of the very high emissions associated with cement manufacturing while maintaining structural integrity. The offsets are generated by the avoided process emissions.

*Status:*
Implemented in late 2003, this project has gained in company participation.

*What’s Next:*
Horst, Inc. will continue to recruit companies to participate in the program.

Internet Carpool Matching

*Description:*
This project establishes and operates an interactive web site to help commuters conveniently and easily arrange carpoools. Each participant in the carpooling program will result in fuel savings which in turn generate carbon offsets.

*Status:*
This project has been operating for three years and has enjoyed moderate success.

*What’s Next:*
The Portland Department of Transportation will continue to work to expand the membership of the program.

Traffic Signals Optimization

*Description:*
This project improves the timing of traffic signals allowing cars to reduce time spent idling at stop lights. The expedited travel times will decrease overall fuel use resulting in reduced emissions of carbon dioxide from gasoline and diesel fuel.

*Status:*
The City of Portland has installed traffic signal optimization measures in several heavily-used traffic corridors.

*What’s Next:*
The program, in its third year of implementation, is scheduled to run for four years.
Offsets are an important complement to the global community's primary challenge of achieving significant emission reductions by major emitters. Offsets maximize the environmental benefit from society's global warming mitigation funding by focusing it on the most cost-effective mitigation opportunities.

Offsets are more than just a part of the solution to global warming. They also benefit the economy by stimulating new technologies, improving human health, and by reducing the many other direct and indirect costs resulting from our over-reliance on fossil fuels.

The Climate Trust makes an important contribution to the development of sound offset policy by sharing our experience as a leader in acquiring, developing, delivering, and managing cost-effective, innovative projects that reduce the level of greenhouse gases in the atmosphere. We are actively participating in state, regional, national, and international climate change policy discussions on best practices for using offsets to reduce greenhouse gas levels.

Currently, we are focusing on support of the Regional Greenhouse Gas Initiative and the West Coast Governors’ Greenhouse Gas Initiative.

We have worked hard to build an outstanding reputation for The Climate Trust. We have good working relationships with our regulatory partners and private funders, as well as number of the leading environmental groups working on climate: Conservation International, The Nature Conservancy, World Resources Institute, World Wildlife Fund, Natural Resources Defense Council, and the California Climate Action Registry all are participating on our Advisory Council, among others. The Advisory Council is an ally in the growth of The Climate Trust, serving as ambassadors, references, and sources of information.
The Climate Trust offers services to everyone—power generators, large and small businesses, and individuals can offset their emissions through our Greenhouse Gas Offset Partnership Program. All our offsets acquired under the Partnership Program meet the strict standards of the Oregon Offset Program. The Partnership Program is comprised of four elements:

**Large Emitter Customized Offsets**

The Climate Trust provides customized offset acquisition services for large emitters. Under this program, the offsets can be owned by the client as a corporate asset and used to meet present and future mitigation requirements.

**Donate-to-Offset**

A simple and efficient way to satisfy the global warming reduction goals for businesses of all types and sizes. Participants make a tax-deductible donation to The Climate Trust, and we use the proceeds to expand our innovative offset portfolio and retire a specified amount of greenhouse gases for the benefit of the environment.

**CarbonCounter.org**

In partnership with Mercy Corps, The Climate Trust has developed a user-friendly, interactive website that allows individuals to calculate carbon dioxide emissions from their daily activities and make a tax-deductible donation to offset part or all of their emissions. Log on today!

**Employee Offset Program**

The Climate Trust helps employers establish an employee donation program with www.Carboncounter.org to demonstrate and improve an organization’s commitment to protecting the environment.

**Help Us Promote Global Warming Solutions**

**Make a Donation**

We invite individuals, businesses, and organizations to donate to The Climate Trust. Donations directly support new program development in creative and innovative ways to protect the climate.

**Contact The Climate Trust:**

503.238.1915 | www.climatetrust.org | 516 S.E. Morrison Street, Suite 300 | Portland, OR 97214-2343
Oregon Power Plant Program
Avista
Calpine
City of Klamath Falls
Northwest Natural
PacifiCorp Power Marketing
Portland General Electric

Large Emitter Offset Acquisition Program
American National Power (International Power)
Basin Creek Equity Partners
Seattle City Light

Donate-to-Offset Program
Axis Performance Advisors
The Bill Healy Foundation
Cascadia Region Green Building Council
City of Portland Office of Sustainable Development
Delta Airlines
Ecotrust
First Affirmative Financial Network
Green Mountain Energy
Hot Lips Pizza
Individual Tree Selection Management
The Lemelson Foundation
Lewis and Clark College
Meeting Strategies Worldwide
Metafore
Natural Capital Center
Nike
Patagonia
Portland Best Awards
Progressive Investment Management
ShoreBank Pacific
Socially Responsible Investing in the Rockies
Society of Organizational Learning
Sustainable Harvest
Sustainable Northwest
The Wild Salmon Center
World Cup Coffee

Foundations
The Bullitt Foundation
The Energy Foundation
Meyer Memorial Trust
M.J. Murdock Charitable Trust
Surdna Foundation

Leadership Circle
Members of this elite group evidence a strong desire to counter the impacts of global warming and make an annual, unrestricted donation of $500+ from individuals or $1000+ from corporations.

Individual Members:
Eli and Madeleine Lamb
Peter Samson and Robin H. Schauffler
The 2004 Climate Trust Board of Directors
Mike Burnett and Mary E. Henry
Michael S. Ashford and Wendy Bolger

Corporate Members:
Nike
Pratt and Larson Ceramics
Advisory Council

Gail Achterman, Director of the Institute for Natural Resources for Oregon State University
Dale Bryk, Senior Attorney, Natural Resources Defense Council
Tom Casten, President of International Cogeneration Alliance; Chairman and CEO of Private Power
Christine Ervin, Ervin + Company; former President & CEO, U.S. Green Building Council
Ross Gelbspan, Retired Boston Globe reporter and the author of “The Heat is On”
Judi Greenwald, Director of Innovative Solutions at the Pew Center on Global Climate Change
Jan Hamrin, Executive Director of the Center for Resource Solutions
Joel Makower, Executive Producer of the Green Business Network

Non-Voting

Tim Carlberg
Peter Hansen
Michael J. Hayward
Wayne Lei
Roby Roberts

Andrei Marcu
Executive Director, International Emissions Trading Association

David Nemtzow
Former Executive Director of Alliance to Save Energy; Director-General, New South Wales Department of Energy, Utilities and Sustainability

Ken Newcombe
Manager, World Bank Prototype Carbon Fund Team

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Program Director, Climate and Energy, World Resources Institute

Glenn Prickett
Executive Director of the Center for Environmental Leadership in Business, and Senior Vice President of Conservation International

David Sandalow
Environment Scholar, The Brookings Institution

Diane Wittenberg
President of the California Climate Action Registry

Board of Directors

Voting
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Martha Dibblee, Vice Chair
Susan Anderson, Secretary
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Rick Colgan
Martin Goebel

Mike Burnett, Executive Director
Michael Ashford, Deputy Director
Sean Clark, Offset Portfolio Manager

Gail Achterman, Director of the Institute for Natural Resources for Oregon State University
Dale Bryk, Senior Attorney, Natural Resources Defense Council
Tom Casten, President of International Cogeneration Alliance; Chairman and CEO of Private Power
Christine Ervin, Ervin + Company; former President & CEO, U.S. Green Building Council
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Staff

Erica C. Graetz, Program and Operations Manager
Björn Fischer, Business Development Manager
Elise Town, Office Manager

Advisory Council

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Financial Statement


Audited Statements of Financial Position

<table>
<thead>
<tr>
<th>Assets</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$869,603</td>
<td>$917,301</td>
<td>$8,419,440</td>
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<tr>
<td>Accounts receivable</td>
<td>$104,311</td>
<td>$2,588</td>
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<tr>
<td>Grants receivable</td>
<td>$153,500</td>
<td>$55,000</td>
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<td>Other current assets</td>
<td>$31,741</td>
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<td>$16,760</td>
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<td>Investments</td>
<td>$6,677,101</td>
<td>$7,591,754</td>
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<tr>
<td>Office equipment, net depreciation</td>
<td>$15,081</td>
<td>$15,475</td>
<td>$11,966</td>
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<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$7,851,337</strong></td>
<td><strong>$8,610,383</strong></td>
<td><strong>$8,448,166</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td></td>
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<tr>
<td>Accounts payable and accrued expenses</td>
<td>$17,856</td>
<td>$15,570</td>
<td>$24,514</td>
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<tr>
<td>Offset contracts payable</td>
<td>$2,785,326</td>
<td>$4,436,282</td>
<td>$4,750,669</td>
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<tr>
<td>Unearned offset contract revenue</td>
<td>$4,819,778</td>
<td>$3,998,712</td>
<td>$3,508,988</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$7,622,960</strong></td>
<td><strong>$8,450,564</strong></td>
<td><strong>$8,284,171</strong></td>
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<table>
<thead>
<tr>
<th>Net assets</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$63,188</td>
<td>$99,630</td>
<td>$115,950</td>
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<tr>
<td>Temporarily restricted</td>
<td>$165,189</td>
<td>$60,189</td>
<td>$48,045</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>$228,377</strong></td>
<td><strong>$159,819</strong></td>
<td><strong>$163,995</strong></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND NET ASSETS** | **$7,851,337** | **$8,610,383** | **$8,448,166**

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### Offset Tracking Report (US $)

<table>
<thead>
<tr>
<th>Offset Funding Source</th>
<th>Total Commitment</th>
<th>Offset Contract Amount</th>
<th>Obligated Contracts</th>
<th>Balance Left to Obligate</th>
<th>Total For Offset Mgt. Funds</th>
<th>Offset Mgt. Funds Spent</th>
<th>Offset Mgt. Funds Unspent</th>
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</thead>
<tbody>
<tr>
<td>Klamath Cogeneration Project</td>
<td>1,197,697</td>
<td>958,158</td>
<td>561,120</td>
<td>397,038</td>
<td>239,539</td>
<td>94,595</td>
<td>144,944</td>
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<tr>
<td>Hermiston Power Project</td>
<td>4,218,760</td>
<td>3,375,008</td>
<td>1,574,039</td>
<td>1,800,969</td>
<td>843,752</td>
<td>261,054</td>
<td>582,698</td>
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<tr>
<td>Coyote Springs 2</td>
<td>2,643,097</td>
<td>2,114,478</td>
<td>1,604,701</td>
<td>509,777</td>
<td>528,619</td>
<td>185,743</td>
<td>342,876</td>
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<tr>
<td>NW Natural</td>
<td>23,566</td>
<td>18,853</td>
<td>0</td>
<td>18,853</td>
<td>4,713</td>
<td>0</td>
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<tr>
<td>Klamath Expansion Project</td>
<td>261,478</td>
<td>209,182</td>
<td>0</td>
<td>209,182</td>
<td>52,296</td>
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<tr>
<td>Massachusetts</td>
<td>550,000</td>
<td>450,000</td>
<td>0</td>
<td>450,000</td>
<td>100,000</td>
<td>0</td>
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<tr>
<td>Hermiston Power True-Up</td>
<td>434,141</td>
<td>347,313</td>
<td>260,485</td>
<td>86,853</td>
<td>86,853</td>
<td>15,252</td>
<td>71,576</td>
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<tr>
<td>Partners</td>
<td>212,994</td>
<td>176,871</td>
<td>176,871</td>
<td>0</td>
<td>36,123</td>
<td>29,273</td>
<td>6,850</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>9,541,733</strong></td>
<td><strong>7,649,863</strong></td>
<td><strong>4,177,216</strong></td>
<td><strong>3,022,647</strong></td>
<td><strong>1,891,870</strong></td>
<td><strong>585,917</strong></td>
<td><strong>1,305,953</strong></td>
</tr>
</tbody>
</table>
Audited Statements of Activities

Changes in net assets

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Offset contract revenue</td>
<td>$1,258,851</td>
<td>$289,417</td>
<td>$4,685,350</td>
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<tr>
<td>Other contract revenue</td>
<td>$173,726</td>
<td>$19,930</td>
<td>$67,864</td>
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<tr>
<td>Interest/Investment income</td>
<td>$93,914</td>
<td>$119,116</td>
<td>$113,182</td>
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<tr>
<td>Contributions and grants</td>
<td>$222,849</td>
<td>$113,196</td>
<td>$43,045</td>
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<tr>
<td>Other income</td>
<td>$7,800</td>
<td>$14,266</td>
<td>$17,532</td>
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<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$1,757,140</td>
<td>$555,925</td>
<td>$4,926,973</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
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<td></td>
</tr>
<tr>
<td>Program</td>
<td>$1,551,295</td>
<td>$346,394</td>
<td>$4,884,345</td>
</tr>
<tr>
<td>Management and general</td>
<td>$100,185</td>
<td>$108,758</td>
<td>$84,042</td>
</tr>
<tr>
<td>Fund Raising</td>
<td>$37,102</td>
<td>$104,949</td>
<td>$31,237</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>$1,688,582</td>
<td>$560,101</td>
<td>$4,999,624</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>$68,558</td>
<td>$(4,176)</td>
<td>$(72,651)</td>
</tr>
</tbody>
</table>

Net assets—beginning of year $159,819 $163,995 $236,646
Net assets—end of year $228,377 $159,819 $163,995

Unearned Contract Revenue

All offset contract revenues are restricted for selection and contracting, acquiring, and managing offset contracts. Offset contract revenues are recognized as revenue in the period the offset contracts are obligated and management and oversight services are performed. Offset contract funds received but not yet obligated are recorded as unearned offset contract revenue. Unearned offset contract revenue is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$3,998,712</td>
<td>$3,508,988</td>
<td>$2,575,765</td>
</tr>
<tr>
<td>Funds received</td>
<td>—</td>
<td>$484,141</td>
<td>$5,618,573</td>
</tr>
<tr>
<td>Offset contract cancellations and revisions</td>
<td>$2,079,917</td>
<td>$295,000</td>
<td>—</td>
</tr>
<tr>
<td>Funds obligated and revenue earned</td>
<td>$(1,258,851)</td>
<td>$(289,417)</td>
<td>$(4,685,350)</td>
</tr>
<tr>
<td><strong>Unearned offset contract revenue</strong></td>
<td>$4,819,778</td>
<td>$3,998,712</td>
<td>$3,508,988</td>
</tr>
</tbody>
</table>