THE CLIMATE TRUST

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2015

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KERN & THOMPSON, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Climate Trust
Portland, Oregon

We have audited the accompanying consolidated financial statements of The Climate Trust (non-profit organizations), which comprise the statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited The Climate Trust's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kern & Thompson, LLC

Portland, Oregon
June 13, 2016

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THE CLIMATE TRUST

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

ASSETS

	2015	2014
Cash and cash equivalents	$ 4,763,257	$ 4,750,350
Investments	21,638,332	21,512,616
Accounts receivable	8,075	83,896
Prepaid expenses and deposits	49,357	28,755
Prepaid offset purchases	1,672,854	2,462,479
Fixed assets net of accumulated deprecation ($81,488 and $81,135)	2,297	-
Total assets	**$ 28,134,172**	**$ 28,838,096**

LIABILITIES AND NET ASSETS

	2015	2014
Line of credit	$ -	$ -
Accounts payable	76,558	51,084
Accrued expenses	101,679	75,378
Refundable advance	188,473	-
Unearned offset revenue	26,566,873	27,322,188
Total liabilities	**26,933,583**	**27,448,650**
Net assets		
Unrestricted	1,194,805	1,290,179
Temporarily restricted	5,784	99,267
Total net assets	**1,200,589**	**1,389,446**
Total liabilities and net assets	**$ 28,134,172**	**$ 28,838,096**

See notes to financial statements.

THE CLIMATE TRUST

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Total 2015	Total 2014
Revenues and other support				
Offset project revenue	$ 4,282,126	$ -	$ 4,282,126	$ 2,356,066
Offset fee revenue	1,000,074	-	1,000,074	764,532
Other contract revenue	55,890	-	55,890	103,562
Contributions and grants	134,641	28,444	163,085	247,513
Investment income, net of expenses	357,002	-	357,002	276,160
Net assets released from restrictions:				
Satisfaction of purpose restrictions	121,927	(121,927)	-	-
Total revenues and other support	**5,951,660**	**(93,483)**	**5,858,177**	**3,747,833**
Expenses				
Program services	4,871,868	-	4,871,868	2,644,522
Management and general	694,557	-	694,557	801,276
Fundraising	2,145	-	2,145	2,451
Total expenses	5,568,570	-	5,568,570	3,448,249
Income (loss) from operations	383,090	(93,483)	289,607	299,584
Unrealized gain (loss) on investments	(478,464)	-	(478,464)	523,776
Change in net assets	**(95,374)**	**(93,483)**	**(188,857)**	**823,360**
Net assets, beginning of year	1,290,179	99,267	1,389,446	566,086
Net assets, end of year	**$ 1,194,805**	**$ 5,784**	**$ 1,200,589**	**$ 1,389,446**

See notes to financial statements.

THE CLIMATE TRUST

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	Program Services	Management and General	Fund-raising	Total 2015	Total 2014
Salaries	$ 564,556	$ 504,641	$ 1,287	$ 1,070,484	$ 1,023,685
Payroll taxes	37,496	32,226	87	69,809	70,970
Employee benefits	123,074	105,335	254	228,663	241,844
Offset contracts	3,768,864	-	-	3,768,864	1,754,327
Professional services	143,375	58,430	-	201,805	156,662
Occupancy	34,532	30,588	77	65,197	62,704
Office expenses	12,363	53,113	39	65,515	49,403
Meetings, conferences, and training	5,127	1,658	-	6,785	13,994
Travel	46,360	14,177	-	60,537	53,274
Miscellaneous	4,434	26,124	-	30,558	20,713
Depreciation	-	353	-	353	673
Total expenses before indirect expense allocation	**4,740,181**	**826,645**	**1,744**	**5,568,570**	**3,448,249**
Indirect expense allocation	131,687	(132,088)	401	-	-
	$ 4,871,868	**$ 694,557**	**$ 2,145**	**$ 5,568,570**	**$ 3,448,249**

See notes to financial statements.

THE CLIMATE TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ (188,857)	$ 823,360
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation	353	673
Net realized/unrealized (gain) loss on investments	478,464	(523,776)
(Increase) decrease in:		
Accounts receivable	75,821	30,017
Prepaid expenses and deposits	(20,603)	(10,885)
Prepaid offset purchases	789,625	134,651
Accounts payable and accrued expenses	51,775	39,698
Refundable advance	188,473	-
Unearned offset revenue	(755,315)	6,672,111
Net cash provided by (used in) operating activities	**619,736**	**7,165,849**
Cash flows from investing activities:		
Purchase of investments	(1,682,496)	(8,238,982)
Proceeds from sale of investments	1,078,316	2,555,019
Purchase of property and equipment	(2,649)	-
Net cash provided by (used in) investing activities	**(606,829)**	**(5,683,963)**
Change in cash and cash equivalents	**12,907**	**1,481,886**
Cash and cash equivalents, beginning of year	4,750,350	3,268,464
Cash and cash equivalents, end of year	**$ 4,763,257**	**$ 4,750,350**

See notes to financial statements.

NOTE A – DESCRIPTION OF ORGANIZATION

National Climate Trust (NCT) began operations in 2008 as the parent organization to Oregon Climate Trust (OCT) (collectively, The Climate Trust, “TCT” or the Organization) which was originally formed in 1997. Effective January 1, 2015, OCT and NCT entered into an assumption and assignment agreement of substantially all NCT’s accounts and contracts to OCT as part of designing and planning for a new business model. As of the report date, TCT will form a wholly owned subsidiary, Climate Trust Capital LLC to serve as the management company to administer a limited partnership carbon investment pilot fund.

The Climate Trust’s mission is to provide expertise, financing, and inspiration to accelerate innovative and effective climate solutions that endure.

Oregon Climate Trust promotes climate change solutions by financing high quality greenhouse gas reduction projects and advancing sound climate policy. OCT receives funds from electricity facility developers under requirements of the Oregon Carbon Dioxide Standard, and from other entities seeking to reduce their carbon footprint. As a result, OCT 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 The Climate Trust which also receives contributions and earned revenue from both public and private entities.

<u>Offset Funds and Definitions</u>

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,” The Climate Trust 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 are not yet committed to meet a future payable.

Deobligated – Offset Funds that were committed via an Emission Reduction Purchase Agreement, 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 on TCT's Carbon Registry so that they cannot be double counted.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, which recognizes income when earned and expenses when incurred.

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 unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time.

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 a separate bank accounts which totaled $2,706,116 and $2,647,113, respectively, at December 31, 2015 and 2014. These restricted cash accounts are pledged as security to the funder for performance of contractual obligations.

Investments

Investments are carried at fair value.

Accounts Receivable

Accounts receivable are unsecured and reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be insignificant.

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 four suppliers that meet its criteria.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Offset project funds received but not yet Obligated are recorded as unearned offset revenue. Unearned offset projects funds Obligated for the purchase and Retirement of offset credits total $16,187,013 and are included in unearned offset revenue. Offset project revenue is recognized when contracted carbon offsets are acquired and Retired. Revenues associated with the purchase and sale of carbon offsets are recorded when the title passes.

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 and applying such percentages to the total contractual fee revenue amount. 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.

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. The Organization reports gifts of cash and other assets as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Federal and State Income Taxes

National Climate Trust and Oregon Climate Trust are organized as nonprofit corporations exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying consolidated financial statements, as the Organizations have no unrelated business income. The Organizations are not private foundations.

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE C – INVESTMENTS

Investments are valued at their fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. 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 also shown in the statement of activities. Interest income is accrued as earned.

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

Total investment return consists of the following components:

	2015	2014
Operating:		
Investment income	$ 516,272	$ 420,060
Investment fees	(159,270)	(143,900)
	357,002	276,160
Nonoperating:		
Net realized/unrealized gain (loss)	(478,464)	523,776
Total investment return	$ (121,462)	$ 799,936

NOTE D – UNEARNED OFFSET REVENUE – OBLIGATED

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 $26,566,873 and are as follows at December 31, 2015:

Year Ended December 31,	
2016	$ 4,036,713
2017	3,440,067
2018	2,148,278
2019	1,399,405
2020	1,188,723
Thereafter	3,973,827
Total	$ 16,187,013

NOTE E – CONCENTRATION OF REVENUE

For 2015, carbon offset project revenues from two contracts represent 55% of total revenue. For 2014, carbon offset project revenues from one contract represent 36% of total revenue.

NOTE F – LINE OF CREDIT

The Climate Trust has a $500,000 line of credit from Beneficial State Bank with interest payable monthly at the bank's prime rate less .25% (3.0% at December 31, 2015 and 2014). The line matures January 2017 and is secured by a $500,000 certificate of deposit and is subject to certain nonfinancial covenants. No advances on the line were outstanding at December 31, 2015 and 2014.

The Climate Trust has a $11,965,000 line of credit from UBS Bank USA with interest payable at the 30 day LIBOR rate plus 1.75% (2.18% at December 31, 2015). The line was opened in 2015, is due on demand and is secured by certain UBS Investment account balances. No advances were outstanding at December 31, 2015. As of the report date $3,244,193 was outstanding.

NOTE H – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 were restricted by donors as follows:

	2015	2014
Carbon Funding Model	$ 5,784	$ 75,267
Agricultural Program	-	24,000
Total temporarily restricted net assets	$ 5,784	$ 99,267

NOTE I – LEASE COMMITMENT

The Climate Trust leases office space under a lease agreement through October 31, 2018. Monthly rent is $4,783 and increases annually. Lease expense for the years ended December 31, 2015 and 2014 approximated $64,400 and $62,400, respectively.

Future annual minimum lease payments under this agreement are as follows:

Year Ended December 31,	
2016	$ 57,700
2017	59,400
2018	50,700
Total	$ 167,800

NOTE J – RETIREMENT PLAN

The Climate Trust 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 2015 and 2014 were $37,986 and $41,310, respectively.

NOTE K – CONCENTRATIONS OF CREDIT RISK

The Organization's cash accounts are maintained in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Balances in excess of insured limits were approximately $4,513,000 and $3,748,000 as of December 31, 2015 and 2014, respectively. Uninsured balances at December 31, 2015 include approximately $1,311,000 in cash balances held in investment brokerage accounts.

NOTE K – CONCENTRATIONS OF CREDIT RISK (CONTINUED)

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. The Climate Trust's investment return, utilizing fixed income securities, is exposed to interest rate changes.

NOTE L – COMMITMENTS AND CONTINGENCIES

The Climate Trust has commitments under various carbon offset and other contracts whereby additional payments or receipts are due contingent upon the companies or The Climate Trust 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 M – RELATED PARTY DISCLOSURE

The Climate Trust enters into contracts with third parties as required by the Qualified Organization under the Oregon Carbon Dioxide Standard (the Standard) and other programs. As required by the Standard, the Oregon Climate Trust board members are either representatives of utilities for which the Organization manages funding or board members nominated by the Energy Facility Siting Council or Northwest Energy Coalition. Due to these requirements and as a matter of regular business, the Trust has entered into active contracts that involve organizations in which two board members are employees. The Trust's conflict of interest policy requires that board members disclose potential conflicts and refrain from voting on any actions that pose a possible or actual conflict of interest.

NOTE N – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the consolidated statement 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.

NOTE N – FAIR VALUE MEASUREMENTS (CONTINUED)

Fair values of assets measured on a recurring basis at December 31, 2015 and 2014 are as follows:

2015	Fair Value	Level 1	Level 2
Cash and cash equivalents	$ 1,381,109	$ 1,381,109	$ -
International Equities	3,452,386	3,452,386	-
US Equities	5,826,811	5,826,811	-
Fixed income securities:			
Corporate	4,308,192	-	4,308,192
Municipal	2,320,343	-	2,320,343
Treasuries	3,068,668	-	3,068,668
Asset-backed	1,280,823	-	1,280,823
	$ 21,638,332	$ 10,660,306	$ 10,978,026

2014	Fair Value	Level 1	Level 2
Cash and cash equivalents	$ 871,361	$ 871,361	$ -
International Equities	2,900,282	2,900,282	-
US Equities	6,684,851	6,684,851	-
Fixed income securities:			
Corporate	4,461,532	-	4,461,532
Municipal	2,435,947	-	2,435,947
Treasuries	3,199,382	-	3,199,382
Asset-backed	959,261	-	959,261
	$ 21,512,616	$ 10,456,494	$ 11,056,122

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 O – SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 13, 2016, which is the date the financial statements were available to be issued.