

Calvert Impact Climate, Inc.

Audited Financial Statements

*Years ended December 31, 2023 and 2022
with Report of Independent Auditors*

Calvert Impact Climate, Inc.

Audited Financial Statements

Years ended December 31, 2023 and 2022

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Report of Independent Auditors

Board of Directors
Calvert Impact Climate, Inc.

Opinion

We have audited the financial statements of Calvert Impact Climate, Inc. (the Company), which comprise the statements of financial position as of December 31, 2023 and 2022 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and 2022 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.

Basis for Opinion

We conducted our audit 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 Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note B to the financial statements, effective January 1, 2023, the Company adopted Financial Accounting Standards Board Accounting Standards Update 2016-13 and subsequent amendments, *Financial Instruments—Credit Losses (Topic 326)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 Company'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 Company'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.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
April 2, 2024

Calvert Impact Climate, Inc.

Statements of Financial Position

December 31, 2023 and 2022

	2023	2022
Assets		
Restricted cash and cash equivalents	\$ 72,107	\$ -
Loans receivable, net of allowance for credit losses of \$0 of and \$0, respectively	32,705,347	-
Grant receivable	1,731,479	5,000,000
Interest receivable	143,125	-
Total assets	<u>\$ 34,652,058</u>	<u>\$ 5,000,000</u>
Liabilities and net assets		
Liabilities:		
Cut Carbon Notes payable, net (the Notes)	\$ 29,552,738	\$ -
Other liabilities	73,240	-
Total liabilities	<u>29,625,978</u>	<u>-</u>
Net assets:		
Without donor restrictions:		
Undesignated	<u>5,026,080</u>	<u>5,000,000</u>
Total Net Assets without Donor Restrictions	<u>5,026,080</u>	<u>5,000,000</u>
Total net assets	<u>5,026,080</u>	<u>5,000,000</u>
Total liabilities and net assets	<u>\$ 34,652,058</u>	<u>\$ 5,000,000</u>

See accompanying notes to the financial statements.

Calvert Impact Climate, Inc.

Statements of Activities

Years ended December 31, 2023 and 2022

	2023	2022
Revenue		
Interest revenue	\$ 433,667	\$ -
Grant revenue	-	5,000,000
Total revenue	433,667	5,000,000
Expenses		
Financial expenses	343,317	-
Operating expenses	64,268	-
Total expenses	407,587	-
Change in net assets	26,080	5,000,000
Net assets, beginning of year	5,000,000	-
Net assets, end of year	\$ 5,026,080	\$ 5,000,000

See accompanying notes to the financial statements.

Calvert Impact Climate, Inc.

Statements of Cash Flows

Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 26,080	\$ 5,000,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of loan and Cut Carbon Note issuance costs	9,162	
Changes in operating assets and liabilities:		
Grant receivable	3,268,521	(5,000,000)
Interest receivable	(143,125)	-
Other liabilities	73,240	-
Net cash provided by operating activities	3,233,878	-
Cash flows from investing activities		
Loans purchased	(32,713,271)	-
Net cash used in investing activities	(32,713,271)	-
Cash flows from financing activities		
Proceeds from issuance of Cut Carbon Notes	29,700,000	-
Cut Carbon Note issuance costs	(148,500)	-
Net cash provided by financing activities	29,551,500	-
Net change in cash and cash equivalents	72,107	-
Restricted cash and cash equivalents, beginning of year	-	-
Restricted cash and cash equivalents, end of year	\$ 72,107	\$ -
Supplemental disclosures of cash information		
Interest paid	\$ 260,916	\$ -

See accompanying notes to the financial statements.

Calvert Impact Climate, Inc.

Notes to Financial Statements

Years ended December 31, 2023 and 2022

Note A - Organization

Calvert Impact Climate, Inc. (the Company), a Delaware charitable nonstock corporation, a wholly controlled subsidiary of Calvert Impact, Inc. was organized on May 28, 2021 for charitable, educational, and scientific purposes. The Company's principal focus is to mitigate the effects of climate change and promote sustainable real estate development. To advance its charitable purpose, the Company finances energy efficiency and renewable energy generation upgrades for commercial buildings throughout the United States. This financing is originated pursuant to commercial property assessed clean energy (CPACE) programs. Through CPACE programs, building owners can make sustainability upgrades to their properties using private financing, which they repay via special assessments added to their tax bill. The special assessments create liens on the underlying property that, in general, are (i) on equal footing with or immediately junior to property taxes and (ii) senior to all other liens, including mortgage liens.

From time to time, the Company plans to acquire CPACE receivables from PACE Equity Warehouse C, LLC (the Seller), a Delaware limited liability company. The Seller is a wholly-owned indirect subsidiary of PACE Equity, LLC, a Wisconsin limited liability company (PACE Equity or the Subservicer of the Cut Carbon Notes). The CPACE loans receivable are secured by and repaid via the CPACE special assessments.

The Company finances its acquisition of CPACE loans receivable by selling asset-backed notes (the Cut Carbon Notes) to investors. The Cut Carbon Notes are payable from all assets of the Company and secured by the CPACE loans receivable and certain other assets of the Company.

The offering of the Cut Carbon Notes is sponsored by Calvert Impact, Inc. (the Sponsor), a Delaware 501(c)(3) charitable nonstock corporation. The Sponsor is the sole member and parent of the Company.

Calvert Impact, Inc. also acts as Master Servicer and Master Portfolio Administrator for all of the CPACE Assets on behalf of the Company.

Note B - Summary of Significant Accounting Policies

Basis of Reporting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). Preparation of financial statements in accordance with GAAP 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, and those differences could be material.

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (continued)

Adoption of Accounting Standard

The Company adopted Accounting Standards Update (ASU) 2016-13 and subsequent amendments, *Financial Instruments – Credit Losses (Topic 326)* (the guidance) on January 1, 2023. The guidance replaces the incurred loss impairment model with an expected loss model, also referred to as the current expected credit loss (CECL) model. The model requires the Company to measure expected credit losses on financial assets measured at amortized cost and record an allowance for credit loss against those assets. The Company adopted the guidance using the modified retrospective approach. There was no impact to the Company from adopting the standard as of January 1, 2023.

Subsequent Events

The Company has evaluated subsequent events for disclosure and recognition through April 2, 2024, the date on which these financial statements were available to be issued and has considered all relevant matters in the preparation of the financial statements and notes.

Cash and Cash Equivalents

The Company considers highly liquid investments, with maturity of three months or less when purchased, to be cash equivalents. The Company maintains cash in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company monitors these balances and believes they do not represent a significant credit risk to the Company.

Grant Receivable

Unconditional contributions and grants are recognized when received. Conditional contributions and grants, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Company determined no allowance for credit losses for grant receivable was deemed necessary as of December 31, 2023 and 2022.

Loans Receivable

Loans for which management has the intent and ability to hold until maturity or payoff are recorded at amortized cost, net of the allowance for credit losses. Amortized costs is the principal balance outstanding and issuance costs incurred but deferred on the purchase of the loans. Interest income is accrued on the unpaid principal balance. Included in these balances are issuance costs of \$789,962 and \$0 as of December 31, 2023 and 2022, respectively, which will be amortized over the term of the individual loans as an offset to interest income.

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses

The Company has established an allowance for credit losses to provide estimates of uncollectible loans, which is reflected in the statements of financial position within loans receivable. Although variability is inherent in such estimates, management believes that the allowance for credit losses provided in the financial statements is adequate. However, because of the small population of loans and limited historical experience, as well as changing, unassessed or inaccurate variables and analysis, actual losses could be significantly more or less than management's estimate. As adjustments to these estimates become necessary, such adjustments are included in current operations. On a quarterly basis, the Company reviews the current level of reserves, and the state of the portfolio to determine the adequacy of the reserve level to cover future losses based on historical experience adjusted for current conditions and reasonable supportable forecasts.

The Company pools loans for estimating its allowance for credit loss based on the individual risk score of each loan. The Company's loans are secured by liens on the underlying real estate that are either pari passu with or junior only to the liens for real property taxes. Additionally, the Company considers the loan-to-value (LTV) ratio which measures the fair value of the real estate collateral in excess of the Company's loan. The Company considers the risk attributes of the loans, including the borrower's past performance, the collateral supporting the loan, the seniority of the Company's loan to any other loans on the underlying real estate, current conditions, and reasonable, supportable forecasts. As of December 31, 2023, the Company concluded that no allowance for credit losses was required.

The Company ceases to accrue interest on loans when they become 90 days past due unless the obligation is both well secured and in the process of collection, or when management believes the asset is not collectible. Loans are returned to accrual status only when all the principal and interest amounts contractually due are brought current and in the opinion of management, future payments are reasonably assured. Interest accrued on these loans is reversed against interest income. If deemed finally uncollectible, the asset is written-off, offsetting the asset value on the balance sheet against the allowance for credit losses. Changes in the allowance for credit losses on loans are recorded as provision for credit losses income (expense) on the statements of activities. After write off, any recovery is recognized as income in the period in which it was received. A charge off does not lessen the effort to collect. See further disclosures surrounding credit losses in Note C.

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses (continued)

The Company elected not to measure the credit loss allowance for accrued interest receivable on loans and writes off accrued interest as a reversal of interest income. For the year ended December 31, 2023, \$0 of accrued interest was reversed against interest income. Accrued interest receivable on loans in the amount of \$143,125 as of December 31, 2023, was excluded from the estimate of credit losses.

Prior to the adoption of the credit loss standard on January 1, 2023, financial assets reported at amortized cost were reviewed for impairment using an incurred loss model.

Issuance Costs

Issuance costs consist of capitalized costs related to the assignment fee of CPACE loan receivables, and capitalized costs related to the issuance of the Cut Carbon Notes. The Company defers these costs upon assignment and issuance of the related CPACE loan receivable or Cut Carbon Note, and amortizes the expense over the life of the related CPACE loan receivable or Cut Carbon Note.

Cut Carbon Notes Payable

Cut carbon notes payable consist three classes of asset-backed notes sold to investors at interest rates ranging from 5.5% to 6.5%, and maturity date of December 15, 2053. Interest expense is accrued on the unpaid principal balance.

Income Taxes

The Company is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Management has concluded that the Company has maintained its exempt status and that there are no uncertain tax positions as of December 31, 2023 and 2022. There are currently no examinations being conducted.

Grant Revenue

Unconditional contributions and grants are recognized when received. Conditional contributions and grants, with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contributions and grants received prior to meeting the conditions are reported as refundable advances in the statements of financial position. Contributions and grants are recorded as with donor restrictions or without donor restrictions, depending on the existence or nature of any donor-imposed restrictions.

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The 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. The expenses that can be allocated include information technology, occupancy and human resources costs. The Company determined that allocable expenses were de minimis, and therefore did not perform an allocation of these expenses, during the years ended December 31, 2023 and 2022.

Note C – Loans Receivables

The Company acquires and holds CPACE loans receivable due from the CPACE assessment holder. The receivables are collateralized by an assessment against the property for which improvements have been made or are intended to be made. The Company classifies its receivables as held-to-maturity. On October 18, 2023 the company acquired \$31,915,385 of CPACE assets, and included issuance fees of \$797,886, which are included in the Company's amortized cost basis of the loans in accordance with GAAP. These assets will mature at various times from 19 years to 30 years and have interest rates from 5.95% to 7.5%. Loans receivables, net of the credit loss reserve, totaled \$32,705,347 and \$0 as of December 31, 2023 and 2022, respectively. There were no write-offs of loans receivable or accrued interest during the years ended December 31, 2023 and 2022. There were no loans receivable for which accrual of interest had been discontinued as of December 31, 2023 and 2022. There were no loans receivable considered past due as of December 31, 2023 and 2022.

The Company pools its loans receivable by assigned risk rating scores, with 1 being low risk and 4 being the highest risk loan. The Company calculates credit loss on loans receivable based on the loss rate associated with an individual loan's risk score. The Company determined that all CPACE loans receivable have the same risk characteristics as of December 31, 2023, therefore all assets have a risk score of 1. The Company also considered current conditions and reasonable and supportable forecasts. The Company determined no allowance for credit losses for loans receivable was necessary as of December 31, 2023. The following table summarizes the loans receivable balances as of December 31, 2023, based on the risk scores assigned by the Company.

Risk Rating Score	Loans Receivable	Allowance for Credit Losses Rate	Allowance for Credit Losses
Risk Score 1	\$ 32,705,347	0.0%	\$ 0
	<u>\$ 32,705,347</u>		<u>\$ 0</u>
Loans Receivable, Net			<u>\$ 32,705,347</u>

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note C – Loans Receivables (continued)

Fee Issuance Costs are deferred and amortized using the straight line method over the respective lives of the related assets. The Company recognized \$7,924 and \$0 in amortization expenses related to issuance costs during the years ended December 31, 2023 and 2022, respectively, which is included in financial expenses on the statements of activities.

Note D – Cut Carbon Notes

The Company created the Cut Carbon Notes (the Notes) to channel capital to projects that reduce carbon emissions from buildings. The Company has appointed InspereX, LLC as Lead Agent for the Cut Carbon Notes. In turn, InspereX, LLC has established a selling group of downstream broker-dealers and securities firms to effect sales of the Cut Carbon Notes. Cut Carbon Notes will be transacted electronically and settle through the Depository Trust and Clearing Corporation (DTC).

U.S. Bank Trust Company, National Association will serve as the Indenture Trustee and U.S. Bank National Association will serve as the Custodian for the Notes. The Custodian will hold the CPACE Assets and the Indenture Trustee, or an affiliate thereof, will hold the accounts of the Company as collateral for noteholders. The Company's accounts include the "Collection Account", which holds payments received from the CPACE Assets, and the "Liquidity Reserve Account", which holds reserve funds to cover the Company's expenses, including payment of interest on the Notes. The Subservicer will cause all payments of interest, principal, and any other amounts due on the CPACE Assets to be deposited in the Collection Account.

On October 18, 2023 the Company closed on the First series of Cut Carbon Notes with a total sale of \$29,700,000 in three classes paying interest at 5.5% (Class A), 5.75% (Class B), and 6.5% (Class C). All classes of Cut Carbon Notes have a maturity date of December 15, 2053:

Class A	\$ 27,579,000
Class B	909,000
Class C	1,212,000
	<u>\$ 29,700,000</u>

In the event of default payments are made in the following order and priority 1) fees to the Trustee, 2) fees to the Custodian, 3) fees to the Master Servicer and Master Portfolio Administrator, 4) interest to the Class A Noteholders, 5) outstanding principal balance to Class A Noteholders until the balance is reduced to zero 6) interest to the Class B Noteholders, 7) outstanding principal balance to Class B Noteholders until the balance is reduced to zero, 8) interest to the Class C Noteholders, and 9) outstanding principal balance to Class C Noteholders until the balance is reduced to zero.

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note D – Cut Carbon Notes (continued)

The Company incurred Note issuance costs of \$148,500 in connection with this closing, which is reflected within Cut Carbon Notes payable on the statements of financial position. These Note issuance costs amortize over the term of the Note. The Company recognized \$1,238 and \$0 in amortization expenses related to issuance costs during the years ended December 31, 2023 and 2022, respectively, which is included in financial expenses on the statements of activities. The balance of these issuance costs is \$147,262 and \$0 as of December 31, 2023 and 2022.

The Notes pay interest twice a year on June 15 and December 15.

Note E – Related Party Transactions

On October 31, 2022, the Company entered into a grant agreement (the Risk Retention Grant) with the Sponsor. Under the terms of the Risk Retention Grant, the Sponsor will make contributions to the Company in an aggregate amount of up to \$20,000,000. The Company will use the proceeds from the Risk Retention Grant to over-collateralize the Cut Carbon Notes and pay expenses associated with offering the Cut Carbon Notes. At all times, the aggregate outstanding disbursements under the Risk Retention Grant will equal or exceed the amount necessary for the Sponsor to comply with its risk retention obligations under Regulation RR of Securities Exchange Act of 1934, as amended.

The Risk Retention Grant constitutes an “eligible horizontal residual interest.” The Risk Retention Grant represents the right to all funds in excess of amounts needed to make required payments on the Cut Carbon Notes, fund any applicable liquidity reserve, or pay fees and expenses of the Company. The Risk Retention Grant is subordinated to the Cut Carbon Notes and is only entitled to amounts that are not needed on a Cut Carbon Note distribution date to make payments on the Cut Carbon Notes or to make other payments or deposits required by the Cut Carbon Note indenture. Under the terms of the Cut Carbon Note indenture, the Company will repay the Risk Retention Grant only to the extent there are available funds remaining on each Cut Carbon Note distribution date.

As of December 31, 2023 and 2022, \$1,731,479 and \$5,000,000 of accrued grant revenue related to this agreement was reflected within grant receivable on the statements of financial position.

On October 18, 2023, Calvert Impact Capital, Inc, a wholly owned subsidiary of the Sponsor, purchased \$11,028,000 of the Cut Carbon Notes Class A at an interest rate of 5.5%. These are reflected within Cut Carbon Notes payable on the statements of financial position as of December 31, 2023. Interest of \$124,678 was incurred on these Cut Carbon Notes during the year ended December 31, 2023, and is included in financial expenses on the statements of activities. As of December 31, 2023, \$28,642 of interest was accrued related to the Cut Carbon Notes and reflected in the statements of financial position within other liabilities.

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note E – Related Party Transactions (continued)

On January 1, 2023, the Sponsor entered into a shared services agreement with Calvert Impact Capital, Inc.. Under the agreement, Calvert Impact Capital Inc., provided services to the Sponsor and its subsidiaries, including the Company, for an annual fee of \$1,000,000. Additionally, the Sponsor acts as the Master Servicer and Master Portfolio Administrator for the CPACE loans receivable. The Company determined that the Company's share of these services during the years ended December 31, 2023 and 2022 were de minimis to the financial statements as a whole, and therefore no conditional contribution was recorded related to these services during the years ended December 31, 2023 and 2022.

Note F – Functional Expenses

During the year ended December 31, 2023 there were \$407,587 financial and operating expenses incurred, primarily relating to interest expense, bank charges, and professional fees, and change in provision for credit losses. These expense are primarily programmatic in nature as they relate to the Cut Carbon Notes. The Company's stance is that any management and general expenses are de minimis to the financial statements as a whole.

Note G – Liquidity and Availability of Resources

Financial assets available for general expenditure within one year of the statement of financial position date, comprise the following, as of December 31:

	2023	2022
Restricted cash and cash equivalents	\$ 72,107	\$ -
Grant receivable	1,731,479	5,000,000
Interest receivable	143,125	-
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,946,711</u>	<u>\$ 5,000,000</u>

Calvert Impact Climate, Inc.

Notes to Financial Statements (Continued)

Note G – Liquidity and Availability of Resources (continued)

The Company regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. While maintaining the Liquidity Reserve Account is a requirement for the Cut Carbon Notes, the Company is not bound by a covenant to maintain any specific balance in the Liquidity Reserve Account. The Liquidity Reserve Account is required to be funded with proceeds from the Notes at the time of issuance and to the extent it has been used to pay certain expenses, is replenished on each semi-annual Distribution Date as provided in the Standard Priority of Payments in the Indenture. As of December 31, 2023 and 2022, the balance of this account was \$69,056 and \$0, respectively. US Bank Trust Company also maintains the Collection account which holds interest on the CPACE assets, and makes interest payments to the Note holders. As of December 31, 2023 and 2022, the balance of this account was \$3,051 and \$0, respectively. The Company's other financial assets available to meet cash needs for general expenditures within on year include the remaining \$1,731,479 grant receivable from the Sponsor, and interest receivable on Cut Carbon Notes of \$143,125.