

COMBINED FINANCIAL STATEMENTS

FOREST TRENDS ASSOCIATION

THE KATOOMBA GROUP

**FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013**

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Combined Statements of Financial Position, as of December 31, 2014 and 2013	4
EXHIBIT B - Combined Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2014 and 2013	5 - 6
EXHIBIT C - Combined Statement of Functional Expenses, for the Year Ended December 31, 2014	7 - 8
EXHIBIT D - Combined Statement of Functional Expenses, for the Year Ended December 31, 2013	9 - 10
EXHIBIT E Combined Statements of Cash Flows, for the Years Ended December 31, 2014 and 2013	11
NOTES TO COMBINED FINANCIAL STATEMENTS	12 - 17
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Combining Schedule of Financial Position, as of December 31, 2014	18
SCHEDULE 2 - Combining Schedule of Activities, for the Year Ended December 31, 2014	19
SCHEDULE 3 - Combining Schedule of Change in Net Assets, for the Year Ended December 31, 2014	20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Forest Trends Association
The Katoomba Group
Washington, D.C.

We have audited the accompanying combined financial statements of Forest Trends Association and The Katoomba Group (together, the Association), which comprise the combined statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Association as of December 31, 2014 and 2013, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedules of Financial Position, Combining Schedule of Activities and Combining Schedule of Change in Net Assets on pages 18-20 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Gelman Rosenberg & Freedman

May 7, 2015

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,482,093	\$ 1,984,952
Grants and contracts receivable (Notes 2 and 8)	8,172,263	5,891,525
Other receivables	263,786	446,858
Prepaid expenses and other assets	<u>41,603</u>	<u>34,109</u>
Total current assets	<u>9,959,745</u>	<u>8,357,444</u>
FIXED ASSETS		
Fixed assets, net of accumulated depreciation and amortization of \$214,045 and \$208,451 for 2014 and 2013, respectively (Note 3)	<u>89,768</u>	<u>5,740</u>
NONCURRENT ASSETS		
Grants receivable, net of current portion (Notes 2 and 8)	1,164,842	1,038,362
Deposits	<u>38,528</u>	<u>38,528</u>
Total noncurrent assets	<u>1,203,370</u>	<u>1,076,890</u>
TOTAL ASSETS	<u>\$ 11,252,883</u>	<u>\$ 9,440,074</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 5)	\$ 300,000	\$ 300,000
Deferred rent liability, current portion (Note 7)	18,066	9,723
Accounts payable and accrued liabilities	<u>2,925,865</u>	<u>1,211,503</u>
Total current liabilities	<u>3,243,931</u>	<u>1,521,226</u>
LONG-TERM LIABILITIES		
Deferred rent liability, net of current portion (Note 7)	<u>65,455</u>	<u>83,521</u>
Total liabilities	<u>3,309,386</u>	<u>1,604,747</u>
NET ASSETS		
Unrestricted (Note 10)	916,146	(197,289)
Temporarily restricted (Note 4)	<u>7,027,351</u>	<u>8,032,616</u>
Total net assets	<u>7,943,497</u>	<u>7,835,327</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,252,883</u>	<u>\$ 9,440,074</u>

See accompanying notes to combined financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contracts (Notes 8, 9 and 10)	\$ 1,000,000	\$ 11,193,663	\$ 12,193,663
Contributions	418,775	-	418,775
Interest income	2,488	-	2,488
Registration fees	92,219	-	92,219
Other revenue	1,106	-	1,106
Net assets released from donor restrictions (Note 4)	<u>12,198,928</u>	<u>(12,198,928)</u>	<u>-</u>
Total support and revenue	<u>13,713,516</u>	<u>(1,005,265)</u>	<u>12,708,251</u>
EXPENSES			
Program Services:			
Forest Services and Communities	3,809,951	-	3,809,951
Ecosystem Marketplace	1,105,180	-	1,105,180
Forest Trade and Finance	2,781,016	-	2,781,016
Business and Biodiversity Offsets	570,541	-	570,541
Water and Marine	2,338,499	-	2,338,499
The Katoomba Group	325,188	-	325,188
Public/Private Co-Financing	<u>496,237</u>	<u>-</u>	<u>496,237</u>
Total program services	<u>11,426,612</u>	<u>-</u>	<u>11,426,612</u>
Supporting Services:			
Management and General	1,106,904	-	1,106,904
Fundraising	<u>66,565</u>	<u>-</u>	<u>66,565</u>
Total supporting services	<u>1,173,469</u>	<u>-</u>	<u>1,173,469</u>
Total expenses	<u>12,600,081</u>	<u>-</u>	<u>12,600,081</u>
Changes in net assets	1,113,435	(1,005,265)	108,170
Net assets at beginning of year	<u>(197,289)</u>	<u>8,032,616</u>	<u>7,835,327</u>
NET ASSETS AT END OF YEAR	<u>\$ 916,146</u>	<u>\$ 7,027,351</u>	<u>\$ 7,943,497</u>

2013		
Unrestricted	Temporarily Restricted	Total
\$ -	\$ 4,614,217	\$ 4,614,217
600,573	-	600,573
4,057	-	4,057
330	-	330
5,969	-	5,969
<u>8,510,819</u>	<u>(8,510,819)</u>	<u>-</u>
<u>9,121,748</u>	<u>(3,896,602)</u>	<u>5,225,146</u>
581,532	-	581,532
1,282,851	-	1,282,851
3,205,953	-	3,205,953
566,344	-	566,344
1,742,928	-	1,742,928
195,767	-	195,767
<u>523,191</u>	<u>-</u>	<u>523,191</u>
<u>8,098,566</u>	<u>-</u>	<u>8,098,566</u>
799,226	-	799,226
<u>98,697</u>	<u>-</u>	<u>98,697</u>
<u>897,923</u>	<u>-</u>	<u>897,923</u>
<u>8,996,489</u>	<u>-</u>	<u>8,996,489</u>
125,259	(3,896,602)	(3,771,343)
<u>(322,548)</u>	<u>11,929,218</u>	<u>11,606,670</u>
<u>\$ (197,289)</u>	<u>\$ 8,032,616</u>	<u>\$ 7,835,327</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Program Services				
	Forest Services and Communities	Ecosystem Marketplace	Forest Trade and Finance	Business and Biodiversity Offsets	Water and Marine
Salaries and benefits (Note 6)	\$ 484,967	\$ 677,302	\$ 690,204	\$ 135,008	\$ 667,782
Consultants	463,483	142,373	1,280,766	269,670	380,979
Meetings and conferences	131,275	10,970	219,256	16,516	125,840
Travel	78,574	42,725	82,134	10,939	105,801
Office expenses (Note 7)	18,998	8,176	75,612	21,481	18,971
Communications	996	15,658	6,569	17,932	3,306
Partner expenses	-	-	82,337	-	302,963
Subgrants	2,631,658	207,976	344,138	-	727,857
Bad debt	-	-	-	98,995	5,000
TOTAL	\$ 3,809,951	\$ 1,105,180	\$ 2,781,016	\$ 570,541	\$ 2,338,499

Supporting Services						
The Katoomba Group	Public/ Private Co- Financing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 105,523	\$ 237,718	\$ 2,998,504	\$ 375,925	\$ 27,509	\$ 403,434	\$ 3,401,938
55,893	147,426	2,740,590	104,719	25,063	129,782	2,870,372
121,744	8,394	633,995	54,411	-	54,411	688,406
25,690	8,554	354,417	119,481	5,547	125,028	479,445
11,038	569	154,845	241,238	6,890	248,128	402,973
5,300	(412)	49,349	202,330	1,556	203,886	253,235
-	-	385,300	-	-	-	385,300
-	93,988	4,005,617	-	-	-	4,005,617
-	-	103,995	8,800	-	8,800	112,795
\$ 325,188	\$ 496,237	\$ 11,426,612	\$ 1,106,904	\$ 66,565	\$ 1,173,469	\$ 12,600,081

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program Services				
	Forest Services and Communities	Ecosystem Marketplace	Forest Trade and Finance	Business and Biodiversity Offsets	Water and Marine
Salaries and benefits (Note 6)	\$ 259,577	\$ 664,012	\$ 724,439	\$ 147,198	\$ 421,259
Consultants	127,490	286,419	1,531,271	301,286	375,478
Meetings and conferences	67,062	15,153	276,639	21,991	63,733
Travel	58,772	38,895	87,978	7,053	66,819
Office expenses (Note 7)	8,438	12,973	84,376	14,957	7,565
Communications	7,657	9,723	5,018	1,992	5,301
Partner expenses	18,178	121,309	255,937	-	215,020
Subgrants	34,358	134,367	240,295	8,000	587,753
Bad debt	-	-	-	63,867	-
TOTAL	\$ 581,532	\$ 1,282,851	\$ 3,205,953	\$ 566,344	\$ 1,742,928

Supporting Services						
The Katoomba Group	Public/ Private Co- Financing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
\$ 46,632	\$ 294,471	\$ 2,557,588	\$ 252,282	\$ 52,557	\$ 304,839	\$ 2,862,427
33,658	94,276	2,749,878	51,258	29,279	80,537	2,830,415
50,692	3,931	499,201	12,717	494	13,211	512,412
14,954	47,857	322,328	66,634	14,283	80,917	403,245
6,239	3,102	137,650	277,905	565	278,470	416,120
-	1,504	31,195	138,430	1,519	139,949	171,144
(600)	2,275	612,119	-	-	-	612,119
44,192	75,775	1,124,740	-	-	-	1,124,740
-	-	63,867	-	-	-	63,867
\$ 195,767	\$ 523,191	\$ 8,098,566	\$ 799,226	\$ 98,697	\$ 897,923	\$ 8,996,489

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 108,170	\$ (3,771,343)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	7,175	7,201
Change in discount on grants receivables	69,918	(61,808)
Bad debt	112,795	79,376
Change in allowance for bad debt	-	(77,000)
(Increase) decrease in:		
Grants and contracts receivable	(2,589,931)	1,909,148
Other receivables	183,072	(15,821)
Prepaid expenses and other assets	(7,494)	(20,269)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,714,362	498,676
Deferred rent liability	<u>(9,723)</u>	<u>16,957</u>
Net cash used by operating activities	<u>(411,656)</u>	<u>(1,434,883)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(91,203)</u>	<u>-</u>
Net cash used by investing activities	<u>(91,203)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	2,150,000	775,000
Payments on line of credit	<u>(2,150,000)</u>	<u>(925,000)</u>
Net cash used by financing activities	<u>-</u>	<u>(150,000)</u>
Net decrease in cash and cash equivalents	(502,859)	(1,584,883)
Cash and cash equivalents at beginning of year	<u>1,984,952</u>	<u>3,569,835</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,482,093</u>	<u>\$ 1,984,952</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 4,188</u>	<u>\$ 1,125</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Forest Trends Association (FT) is a not-for-profit organization incorporated in the District of Columbia in 1996. Forest Trends Association's mission is to help industry, conservationists, researchers, and local communities work together to achieve conservation and sustainable use of the world's forests through market-based solutions.

The Katoomba Group (the Group) commenced operations on January 1, 2006. The Group was previously a program of Forest Trends Association. The Group's mission is to facilitate strategic partnerships that can launch green forest products in the marketplace. The Group is now considered to be in a dormant phase and has not raised any funding for operations for fiscal years 2014 and 2013, although the programmatic activities continue to operate as a program of Forest Trends Association. Management has considered merging the Group into Forest Trends Association, but the future of the Group as a separate legal entity has yet to be determined as of May 7, 2015.

The accompanying combined financial statements reflect the activity of Forest Trends Association and The Katoomba Group (together, the Association). The financial statements of the two organizations have been combined as they are under common control. All intercompany transactions have been eliminated in combination.

Basis of presentation -

The accompanying combined financial statements are prepared on the accrual basis of accounting, and in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*.

Cash and cash equivalents -

For combined financial statement purposes, the Association considers all investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, the Association maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Grants, contracts, and other receivables -

Grants receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants revenue. Foreign exchange gains and losses are presented separately on the accompanying Combined Statements of Activities and Changes in Net Assets. Conditional promises to give are not included as support (or receivable) until the conditions are substantially met. All grants receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Contracts and other receivable are recorded at their net realizable value, which approximates fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer. As of December 31, 2014 and 2013, management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts was not established.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Fixed assets -

Fixed asset acquisitions with a value of \$1,000 or more are capitalized and stated at cost. Furniture and equipment are depreciated using the straight-line method over the useful life of the asset, generally three to seven years. Hardware and software are amortized using the straight-line method over the useful life of the asset, generally three to five years. Leasehold improvements are amortized over the remaining life of the lease. Repairs and maintenance are expensed as incurred.

Net asset classification -

The net assets of the Association are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operations of the Association and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include 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 (a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Income taxes -

Forest Trends Association is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Forest Trends Association is not a private foundation.

The Katoomba Group is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. The Katoomba Group is not a private foundation.

Accordingly, no provision has been made for Federal income taxes in the accompanying combined financial statements.

Uncertain tax positions -

For the years ended December 31, 2014 and 2013, the Association has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the combined financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Grants and contributions -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying combined financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contracts -

Contracts that are awarded to the Association are accounted for as exchange transactions, and accordingly, revenue is recognized when the qualifying expenditures are incurred. Any funds not received upon incurring qualifying expenditures are recorded as contracts receivable.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Functional allocation of expenses -

The costs of providing various programs and other activities have been summarized on a functional basis in the Combined Statements of Activities and Changes in Net Assets, and in the Combined Statements of Functional Expenses. Accordingly, costs have been allocated among the programs and supporting services benefited based on specific identification or based on estimates of costs incurred.

Use of estimates -

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts that are expected to be collected in future years are recorded at fair value, measured as the present value of their estimated future cash flows. The discount on those amounts are computed using risk-free interest rates applicable to the years in which the awards are received; any discount amortization is included in grants and contracts revenue. Management is of the opinion that all receivables are collectible. Grants and contracts receivable are due to be collected as follows:

	2014	2013
Less than one year	\$ 8,172,263	\$ 5,891,525
One to five years	<u>1,250,999</u>	<u>1,054,601</u>
	9,423,262	6,946,126
Less: Discount to present value (1 - 4%)	<u>(86,157)</u>	<u>(16,239)</u>
	<u>\$ 9,337,105</u>	<u>\$ 6,929,887</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

3. FIXED ASSETS

Fixed assets at December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 53,749	\$ 53,749
Computer hardware and software	245,039	160,442
Leasehold improvements	<u>5,025</u>	<u>-</u>
	303,813	214,191
Less: Accumulated depreciation and amortization	<u>(214,045)</u>	<u>(208,451)</u>
	<u>\$ 89,768</u>	<u>\$ 5,740</u>

4. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2014 and 2013, temporarily restricted net assets consisted of the following:

	<u>2014</u>	<u>2013</u>
Forest Services and Communities	\$ 1,460,295	\$ 1,443,352
Ecosystem Marketplace	321,977	458,275
Forest Trade and Finance	2,005,017	5,086,823
Business and Biodiversity Offsets	158,482	368,096
Water and Marine	3,059,073	286,100
The Katoomba Group	-	346,299
Public/Private Co-Financing	<u>22,507</u>	<u>43,671</u>
	<u>\$ 7,027,351</u>	<u>\$ 8,032,616</u>

The following net assets were released from restrictions by incurring expenses (or through the passage of time), satisfying the restricted purposes imposed by the donors.

	<u>2014</u>	<u>2013</u>
Forest Services and Communities	\$ 4,196,705	\$ 634,419
Ecosystem Marketplace	1,375,047	1,288,897
Forest Trade and Finance	3,124,783	3,338,976
Business and Biodiversity Offsets	100,818	568,467
Water and Marine	2,450,834	2,006,628
The Katoomba Group	395,589	146,477
Public/Private Co-Financing	<u>555,152</u>	<u>526,955</u>
	<u>\$12,198,928</u>	<u>\$ 8,510,819</u>

Total releases include indirect expenses, which are included in Management and General and Fundraising expenses in the accompanying Combined Statements of Functional Expenses.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

5. LINE OF CREDIT

During the year ended December 31, 2006, the Association established a line of credit with the Bank of Georgetown. The borrowing limit is \$1,000,000, with an annual interest rate of prime plus 0.75%, and a minimum rate of 4.50% (actual rate of 5.75% as of December 31, 2014 and 2013).

Borrowings under the line of credit are secured by all of the Association's assets. Borrowings are subject to various covenants, and as of December 31, 2014 and 2013, the Association was in compliance with these covenants. As of December 31, 2014 and 2013, the principal balance due under the line of credit aggregated \$300,000.

6. PENSION PLAN

The Association has a 401(k) plan covering all employees. The Association's contributions equal 7% of each eligible employee's salary. During the years ended December 31, 2014 and 2013, contributions totaled \$195,973 and \$158,816, respectively.

7. LEASE COMMITMENT

The Association entered into an operating lease agreement for office space with an effective September 1, 2012 and expiring on January 31, 2018. Under the terms of the agreement, the first five months of occupancy will be provided at no cost to the Association. Base rent is \$231,168 per year, increasing by a factor of 3.5% per year, plus a proportionate share of taxes and operating expenses.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability on the Statements of Financial Position. As of December 31, 2014 and 2013, the deferred rent liability aggregated \$83,521 and \$93,244, respectively.

Future minimum lease payments required under the operating lease agreement are as follows:

Year Ended December 31,

2015	\$ 246,928
2016	255,597
2017	264,545
2018	<u>22,108</u>
	<u>\$ 789,178</u>

Rent expense is included in the accompanying Combined Statements of Functional Expenses in "Office expenses". During the years ended December 31, 2014 and 2013, rent expense totaled \$233,236 and \$236,374, respectively.

8. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 51% of grants revenue for the year ended December 31, 2014 and 68% of grants receivable as of December 31, 2014 was derived from grants awarded by two international government grantors and two domestic grantors.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

8. CONCENTRATION OF REVENUE AND RECEIVABLES (Continued)

Approximately 45% of grants revenue for the year ended December 31, 2013 and 70% of grants receivable as of December 31, 2013 was derived from grants awarded by three international government grantors.

The Association has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect the Association's ability to finance ongoing operations.

9. CONTINGENCY

The Association receives grants from various agencies of the United States Government; such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2014. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

10. FUTURE COMMITMENTS FROM USAID

On September 29, 2013, FTA received notification of a significant award (in the form of a cooperative agreement) from the United States Agency for International Development (USAID). The period of performance of the award commences on September 29, 2013 and terminates on September 29, 2018. The total award amount of \$12,994,746 is obligated on a periodic basis, and as of December 31, 2014 and 2013, FTA has received obligations from USAID totaling \$5,028,299 and \$2,835,000, respectively; as of December 31, 2014 and 2013, FTA has spent \$4,518,981 and \$168,593 of the total obligations to date, respectively. The total unliquidated obligation of \$509,318 and \$2,666,407 as well as the remaining unliquidated balance of the award totaling \$8,475,765 and \$12,826,152 for the years ended December 31, 2014 and 2013, respectively, has not been recorded as revenue (and grants receivable) in the accompanying combined financial statements due to the conditional nature of the agreement as well as its reimbursable payment terms. Upon satisfactory completion of the conditions required under such agreement, FTA will recognize revenue in the year those conditions have been met.

11. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 7, 2015, the date the combined financial statements were issued.

SUPPLEMENTAL INFORMATION

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014**

ASSETS

	<u>Forest Trends Association</u>	<u>The Katoomba Group</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,469,894	\$ 12,199	\$ -	\$ 1,482,093
Grants and contracts receivable	8,172,263	-	-	8,172,263
Other receivables	263,786	-	-	263,786
Due from related party	16,701	-	(16,701)	-
Prepaid expenses and other assets	<u>41,318</u>	<u>285</u>	<u>-</u>	<u>41,603</u>
Total current assets	<u>9,963,962</u>	<u>12,484</u>	<u>(16,701)</u>	<u>9,959,745</u>
FIXED ASSETS				
Fixed assets, net of accumulated depreciation and amortization of \$214,045	<u>89,768</u>	<u>-</u>	<u>-</u>	<u>89,768</u>
NONCURRENT ASSETS				
Grants receivable, net of current portion	1,164,842	-	-	1,164,842
Deposits	<u>38,528</u>	<u>-</u>	<u>-</u>	<u>38,528</u>
Total noncurrent assets	<u>1,203,370</u>	<u>-</u>	<u>-</u>	<u>1,203,370</u>
TOTAL ASSETS	<u>\$ 11,257,100</u>	<u>\$ 12,484</u>	<u>\$ (16,701)</u>	<u>\$ 11,252,883</u>

LIABILITIES AND NET ASSETS

	<u>Forest Trends Association</u>	<u>The Katoomba Group</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT LIABILITIES				
Deferred rent liability, current portion	\$ 18,066	\$ -	\$ -	\$ 18,066
Line of credit	300,000	-	-	300,000
Accounts payable and accrued liabilities	2,925,865	-	-	2,925,865
Due to related party	<u>-</u>	<u>16,701</u>	<u>(16,701)</u>	<u>-</u>
Total current liabilities	<u>3,243,931</u>	<u>16,701</u>	<u>(16,701)</u>	<u>3,243,931</u>
LONG-TERM LIABILITIES				
Deferred rent liability, net of current portion	<u>65,455</u>	<u>-</u>	<u>-</u>	<u>65,455</u>
Total liabilities	<u>3,309,386</u>	<u>16,701</u>	<u>(16,701)</u>	<u>3,309,386</u>
NET ASSETS				
Unrestricted	920,363	(4,217)	-	916,146
Temporarily restricted	<u>7,027,351</u>	<u>-</u>	<u>-</u>	<u>7,027,351</u>
Total net assets	<u>7,947,714</u>	<u>(4,217)</u>	<u>-</u>	<u>7,943,497</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,257,100</u>	<u>\$ 12,484</u>	<u>\$ (16,701)</u>	<u>\$ 11,252,883</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Forest Trends Association	The Katoomba Group	Eliminations	Total
UNRESTRICTED REVENUE				
Grants and contracts	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Contributions	418,775	-	-	418,775
Interest income	2,470	18	-	2,488
Registration fees	92,219	-	-	92,219
Other revenue	1,106	-	-	1,106
Net assets released from donor restrictions	<u>12,198,928</u>	<u>-</u>	<u>-</u>	<u>12,198,928</u>
Total unrestricted revenue	<u>13,713,498</u>	<u>18</u>	<u>-</u>	<u>13,713,516</u>
EXPENSES				
Program Services:				
Forest Services and Communities	3,809,951	-	-	3,809,951
Ecosystem Marketplace	1,105,180	-	-	1,105,180
Forest Trade and Finance	2,781,016	-	-	2,781,016
Business and Biodiversity Offsets	570,541	-	-	570,541
Water and Marine	2,338,499	-	-	2,338,499
The Katoomba Group	324,904	284	-	325,188
Public/Private Co-Financing	<u>496,237</u>	<u>-</u>	<u>-</u>	<u>496,237</u>
Total program services	<u>11,426,328</u>	<u>284</u>	<u>-</u>	<u>11,426,612</u>
Supporting Services:				
Management and General	1,106,904	-	-	1,106,904
Fundraising	<u>66,565</u>	<u>-</u>	<u>-</u>	<u>66,565</u>
Total supporting services	<u>1,173,469</u>	<u>-</u>	<u>-</u>	<u>1,173,469</u>
Total expenses	<u>12,599,797</u>	<u>284</u>	<u>-</u>	<u>12,600,081</u>
Change in unrestricted net assets	<u>1,113,701</u>	<u>(266)</u>	<u>-</u>	<u>1,113,435</u>
TEMPORARILY RESTRICTED REVENUE				
Grants and contracts	11,193,663	-	-	11,193,663
Net assets released from donor restrictions	<u>(12,198,928)</u>	<u>-</u>	<u>-</u>	<u>(12,198,928)</u>
Change in temporarily restricted net assets	<u>(1,005,265)</u>	<u>-</u>	<u>-</u>	<u>(1,005,265)</u>
CHANGE IN NET ASSETS	<u>\$ 108,436</u>	<u>\$ (266)</u>	<u>\$ -</u>	<u>\$ 108,170</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Forest Trends Association</u>	<u>The Katoomba Group</u>	<u>Eliminations</u>	<u>Total</u>
UNRESTRICTED NET ASSETS				
Net assets at beginning of year	\$ (193,338)	\$ (3,951)	\$ -	\$ (197,289)
Change in unrestricted net assets	<u>1,113,701</u>	<u>(266)</u>	<u>-</u>	<u>1,113,435</u>
NET ASSETS AT END OF YEAR	<u>\$ 920,363</u>	<u>\$ (4,217)</u>	<u>\$ -</u>	<u>\$ 916,146</u>
TEMPORARILY RESTRICTED NET ASSETS				
Net assets at beginning of year	\$ 8,032,616	\$ -	\$ -	\$ 8,032,616
Change in temporarily restricted net assets	<u>(1,005,265)</u>	<u>-</u>	<u>-</u>	<u>(1,005,265)</u>
NET ASSETS AT END OF YEAR	<u>\$ 7,027,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,027,351</u>