COMBINED FINANCIAL STATEMENTS

FOREST TRENDS ASSOCIATION

THE KATOOMBA GROUP

FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

CONTENTS

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) (a non-profit organization), which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and change 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 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 combined financial statements are free of 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.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

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, 2012 and 2011, 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 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, Activities and Change in Net Assets on pages 20-23 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

Bethesda, Maryland
April 25, 2013

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 3,569,835	$ 2,552,301
Contracts and other receivables, net of allowance for doubtful accounts of $77,000 and $0 in 2012 and 2011, respectively	354,037	152,122
Grants receivable (Notes 2 and 8)	4,911,267	4,168,997
Prepaid expenses and other assets	13,840	39,941
Total current assets	8,848,979	6,913,361
FIXED ASSETS		
Fixed assets, net of accumulated depreciation and amortization of $201,250 and $251,254 for 2012 and 2011, respectively (Note 3)	12,941	24,252
NONCURRENT ASSETS		
Grants receivable, net of current portion (Notes 2 and 8)	3,945,336	1,803,513
Deposits	38,528	-
Total noncurrent assets	3,983,864	1,803,513
TOTAL ASSETS	**$ 12,845,784**	**$ 8,741,126**

See accompanying notes to combined financial statements.

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Line of credit (Note 4)	$ 450,000	$ -
Accounts payable and accrued liabilities	700,327	627,620
Grants payable	12,500	12,500
Total current liabilities	1,162,827	640,120
LONG-TERM LIABILITIES		
Deferred rent liability	76,287	-
Total long-term liabilities	76,287	-
Total liabilities	1,239,114	640,120
NET ASSETS		
Unrestricted	(322,548)	(357,835)
Temporarily restricted (Note 5)	11,929,218	8,458,841
Total net assets	11,606,670	8,101,006
TOTAL LIABILITIES AND NET ASSETS	**$ 12,845,784**	**$ 8,741,126**

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		
	Unrestricted	**Temporarily Restricted**	**Total**
SUPPORT AND REVENUE			
Grants (Notes 8 and 9)	$ -	$ 9,763,400	$ 9,763,400
Contracts	170,280	-	170,280
Individual contributions	48,632	-	48,632
Interest income	3,310	-	3,310
Other revenue	2,464	-	2,464
Net assets released from donor restrictions (Note 5)	6,293,023	(6,293,023)	-
Total support and revenue	6,517,709	3,470,377	9,988,086
EXPENSES			
Program Services:			
Forest Services and Communities	397,626	-	397,626
Ecosystem Marketplace	1,130,331	-	1,130,331
Forest Trade and Finance	1,361,984	-	1,361,984
Business and Biodiversity Offsets	470,523	-	470,523
Incubator Development Services	1,277,323	-	1,277,323
The Katoomba Group	348,666	-	348,666
Public/Private Co-Financing	370,586	-	370,586
Total program services	5,357,039	-	5,357,039
Supporting Services:			
Management and General	1,034,553	-	1,034,553
Fundraising	90,830	-	90,830
Total supporting services	1,125,383	-	1,125,383
Total expenses	6,482,422	-	6,482,422
Changes in net assets	35,287	3,470,377	3,505,664
Net assets at beginning of year	(357,835)	8,458,841	8,101,006
NET ASSETS AT END OF YEAR	**$ (322,548)**	**$ 11,929,218**	**$ 11,606,670**

See accompanying notes to combined financial statements.

2011		
Unrestricted	**Temporarily Restricted**	**Total**
$ -	$ 10,118,908	$ 10,118,908
163,969	-	163,969
26,395	-	26,395
4,064	-	4,064
3,938	-	3,938
5,288,763	(5,288,763)	-
5,487,129	4,830,145	10,317,274
308,675	-	308,675
1,464,004	-	1,464,004
311,770	-	311,770
756,675	-	756,675
1,053,431	-	1,053,431
528,037	-	528,037
109,093	-	109,093
4,531,685	-	4,531,685
837,891	-	837,891
280,346	-	280,346
1,118,237	-	1,118,237
5,649,922	-	5,649,922
(162,793)	4,830,145	4,667,352
(195,042)	3,628,696	3,433,654
$ (357,835)	**$ 8,458,841**	**$ 8,101,006**

See accompanying notes to combined financial statements.

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services				
	Forest Services and Communities	**Ecosystem Marketplace**	**Forest Trade and Finance**	**Business and Biodiversity Offsets**	**Incubator Development Services**
Salaries and benefits (Note 6)	$ 247,785	$ 662,216	$ 453,475	$ 132,308	$ 350,031
Consultants	51,891	141,337	538,001	304,213	238,536
Meetings and conferences	42,945	1,336	20,915	870	14,224
Travel	32,849	24,601	51,389	4,052	70,711
Office expenses (Note 7)	6,558	15,959	29,719	13,370	8,021
Publications	12,008	37,568	36,843	15,710	24,602
Partner expenses	3,590	247,314	231,642	-	516,198
Subgrants	-	-	-	-	55,000
Bad debt	-	-	-	-	-
TOTAL	**$ 397,626**	**$ 1,130,331**	**$ 1,361,984**	**$ 470,523**	**$ 1,277,323**

			Supporting Services			
The Katoomba Group	Public/ Private Co-Financing	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
$ 83,854	$ 234,599	$ 2,164,268	$ 343,468	$ 81,891	$ 425,359	$ 2,589,627
68,584	42,426	1,384,988	153,684	5,159	158,843	1,543,831
12,460	17,403	110,153	28,259	-	28,259	138,412
2,237	42,718	228,557	10,394	2,867	13,261	241,818
1,814	1,544	76,985	261,864	563	262,427	339,412
5,638	12,702	145,071	7,075	350	7,425	152,496
174,079	19,194	1,192,017	609	-	609	1,192,626
-	-	55,000	-	-	-	55,000
-	-	-	229,200	-	229,200.00	229,200
$ 348,666	**$ 370,586**	**$ 5,357,039**	**$ 1,034,553**	**$ 90,830**	**$ 1,125,383**	**$ 6,482,422**

See accompanying notes to combined financial statements.

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services				
	Forest Services and Communities	Ecosystem Marketplace	Forest Trade and Finance	Business and Biodiversity Offsets	Incubator Development Services
Salaries and benefits (Note 6)	$ 158,517	$ 870,405	$ 164,354	$ 175,651	$ 334,626
Consultants	80,447	194,501	65,959	460,816	315,694
Meetings and conferences	29,059	13,220	73	19,936	60,081
Travel	16,818	56,655	21,593	20,760	22,521
Office expenses (Note 7)	10,217	20,183	3,421	14,322	5,644
Publications	13,617	59,439	14,710	34,268	36,277
Partner expenses	-	249,601	41,660	30,922	278,588
TOTAL	**$ 308,675**	**$ 1,464,004**	**$ 311,770**	**$ 756,675**	**$ 1,053,431**

See accompanying notes to combined financial statements.

The Katoomba Group	Public/ Private Co-Financing	Total Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Supporting Services: Total Supporting Services	Total Expenses
$ 152,836	$ 75,128	$ 1,931,517	$ 460,293	$ 180,449	$ 640,742	$ 2,572,259
255,008	12,391	1,384,816	53,907	68,011	121,918	1,506,734
34,010	-	156,379	35,389	624	36,013	192,392
9,374	12,632	160,353	30,575	22,344	52,919	213,272
9,076	298	63,161	255,921	1,804	257,725	320,886
23,151	4,744	186,206	1,806	7,114	8,920	195,126
44,582	3,900	649,253	-	-	-	649,253
$ 528,037	**$ 109,093**	**$ 4,531,685**	**$ 837,891**	**$ 280,346**	**$ 1,118,237**	**$ 5,649,922**

See accompanying notes to combined financial statements.

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 3,505,664	$ 4,667,352
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,311	6,936
Change in discount on grants receivables	38,012	39,526
Change in allowance for bad debt	77,000	-
(Increase) decrease in:		
Contracts and other receivables	(278,915)	318,079
Grants receivable	(2,922,105)	(3,333,389)
Prepaid expenses and other assets	26,101	(3,148)
Deposits	(38,528)	11,000
Increase (decrease) in:		
Accounts payable and accrued liabilities	72,707	79,673
Deferred rent liability	76,287	-
Net cash provided by operating activities	567,534	1,786,029
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(26,085)
Proceeds from sale of fixed asset	-	200
Net cash used by investing activities	-	(25,885)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	575,000	275,572
Payments on line of credit	(125,000)	(275,572)
Net cash provided by financing activities	450,000	-
Net increase in cash and cash equivalents	1,017,534	1,760,144
Cash and cash equivalents at beginning of year	2,552,301	792,157
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 3,569,835**	**$ 2,552,301**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 1,066**	**$ 4,475**

See accompanying notes to combined financial statements.

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. During 2011, the Group did not receive additional funding commitments, although the programmatic activities continued to operate as a program of Forest Trends Association. The Group is now considered to be in a dormant phase and has not raised any funding for operations for fiscal year 2012. 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 April 25, 2013.

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.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). The Association maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of $250,000.

Grants, contracts, and other receivables -

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.

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

Grants, contracts, and other receivables (continued) -

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 included in grants revenue. Conditional promises to give are not included as support 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.

Fixed assets -

Fixed asset purchases in excess of $1,000 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. Software and hardware 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.

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

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2012 and 2011, the Association has documented consideration of FASB ASC 740-10 and 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.

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.

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 RECEIVABLE

Grants receivable that are expected to be collected within one year are recorded at their net realizable value. Grants 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.

2. GRANTS RECEIVABLE (Continued)

The discount on those amounts are computed using risk-free interest rates applicable to the years in which the grants are received; any discount amortization is included in grants revenue. Management is of the opinion that all grants receivable are collectible.

Grants receivable are due to be collected as follows:

	2012	2011
Less than one year	$ 4,911,267	$ 4,168,997
One to five years	4,023,383	1,843,548
	8,934,650	6,012,545
Less: Discount to present value (1%)	(78,047)	(40,035)
	$ 8,856,603	**$ 5,972,510**

3. FIXED ASSETS

Fixed assets at December 31, 2012 and 2011 consisted of the following:

	2012	2011
Furniture and equipment	$ 53,749	$ 53,749
Software and hardware	160,442	160,442
Leasehold improvements	-	61,315
	214,191	275,506
Less: Accumulated depreciation and amortization	(201,250)	(251,254)
	$ 12,941	**$ 24,252**

4. 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, 2012 and 2011).

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, 2012 and 2011, the Association was in compliance with these covenants. As of December 31, 2012 and 2011, the principal balance due under the line of credit aggregated $450,000 and $0, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2012 and 2011, temporarily restricted net assets consisted of the following:

	2012	2011
Forest Services and Communities	$ 600,921	$ -
Ecosystem Marketplace	1,343,969	2,675,897
Forest Trade and Finance	7,461,369	2,146,057
Business and Biodiversity Offsets	414,879	155,333
Incubator Development Services	1,784,870	3,049,774
The Katoomba Group	20,244	426,696
Public/Private Co-Financing	302,966	-
Chesapeake Fund	-	5,084
	$ 11,929,218	$ 8,458,841

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.

	2012	2011
Forest Services and Communities	$ 412,547	$ -
Ecosystem Marketplace	1,155,758	1,733,684
Forest Trade and Finance	1,781,398	441,089
Business and Biodiversity Offsets	659,828	892,164
Incubator Development Services	1,469,652	1,124,965
The Katoomba Group	403,342	624,601
Public/Private Co-Financing	410,498	-
Chesapeake Fund	-	92,260
Passage of time	-	380,000
	$ 6,293,023	$ 5,288,763

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

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, 2012 and 2011, contributions totaled $146,295 and $144,577, respectively.

7. LEASE COMMITMENT

On August 16, 2001, the Association entered into an operating lease agreement for office space, which expired on August 31, 2012. During 2012, the Association entered into an operating lease agreement for office space, 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.

Future minimum lease payments required under operating lease agreements are as follows:

Year Ended December 31,	
2013	$ 211,904
2014	238,585
2015	246,928
2016	255,597
2017	264,545
Thereafter	22,108
	$ 1,239,667

Rent expense is included in the accompanying Combined Statements of Functional Expenses in "Office expenses". During the years ended December 31, 2012 and 2011, rent expense totaled $184,696 and $150,328, respectively.

8. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 67% of grant revenue for the year ended December 31, 2012 and 64% of grants receivable as of December 31, 2012 was derived from one international government grantor. Approximately 73% of grants revenue for the year ended December 31 2011 and 89% of grants receivable as of December 31, 2011 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 2012. 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. During 2012, the Association did not meet the criteria for an audit under OMB Circular A-133.

10. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 25, 2013, the date the combined financial statements were issued.

SUPPLEMENTAL FINANCIAL INFORMATION

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012

ASSETS

	Forest Trends Association	The Katoomba Group	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	$ 3,544,887	$ 24,948	$ -	$ 3,569,835
Contracts and other receivables, net of allowance for doubtful accounts of $77,000	354,037	-	-	354,037
Grants receivable	4,911,267	-	-	4,911,267
Due from related party	13,633	-	(13,633)	-
Prepaid expenses and other assets	13,840	-	-	13,840
Total current assets	8,837,664	24,948	(13,633)	8,848,979
FIXED ASSETS				
Fixed assets, net of accumulated depreciation and amortization of $201,250	12,941	-	-	12,941
NONCURRENT ASSETS				
Grants receivable, net of current portion	3,945,336	-	-	3,945,336
Deposits	38,528	-	-	38,528
Total noncurrent assets	3,983,864	-	-	3,983,864
TOTAL ASSETS	**$ 12,834,469**	**$ 24,948**	**$ (13,633)**	**$ 12,845,784**

LIABILITIES AND NET ASSETS

	Forest Trends Association	The Katoomba Group	Eliminations	Total
CURRENT LIABILITIES				
Line of credit	$ 450,000	$ -	$ -	$ 450,000
Accounts payable and accrued liabilities	700,327	-	-	700,327
Due to related party	-	13,633	(13,633)	-
Grants payable	-	12,500	-	12,500
Total current liabilities	1,150,327	26,133	(13,633)	1,162,827
LONG-TERM LIABILITIES				
Deferred rent liability	76,287	-	-	76,287
Total liabilities	1,226,614	26,133	(13,633)	1,239,114
NET ASSETS				
Unrestricted	(321,363)	(1,185)	-	(322,548)
Temporarily restricted	11,929,218	-	-	11,929,218
Total net assets	11,607,855	(1,185)	-	11,606,670
TOTAL LIABILITIES AND NET ASSETS	**$ 12,834,469**	**$ 24,948**	**$ (13,633)**	**$ 12,845,784**

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Forest Trends Association	The Katoomba Group	Eliminations	Total
UNRESTRICTED REVENUE				
Contracts	$ 170,280	$ -	$ -	$ 170,280
Individual contributions	48,632	-	-	48,632
Interest income	3,285	25	-	3,310
Other revenue	2,464	-	-	2,464
Net assets released from donor restrictions	6,293,023	-	-	6,293,023
Total unrestricted revenue	6,517,684	25	-	6,517,709
EXPENSES				
Program Services:				
Forest Services and Communities	397,626	-	-	397,626
Ecosystem Marketplace	1,130,331	-	-	1,130,331
Forest Trade and Finance	1,361,984	-	-	1,361,984
Business and Biodiversity Offsets	470,523	-	-	470,523
Incubator Development Services	1,277,323	-	-	1,277,323
The Katoomba Group	347,456	1,210	-	348,666
Public/Private Co-Financing	370,586	-	-	370,586
Total program services	5,355,829	1,210	-	5,357,039
Supporting Services:				
Management and General	1,034,553	-	-	1,034,553
Fundraising	90,830	-	-	90,830
Total supporting services	1,125,383	-	-	1,125,383
Total expenses	6,481,212	1,210	-	6,482,422
Change in unrestricted net assets	36,472	(1,185)	-	35,287
TEMPORARILY RESTRICTED REVENUE				
Grants	9,763,400	-	-	9,763,400
Net assets released from donor restrictions	(6,293,023)	-	-	(6,293,023)
Change in temporarily restricted net assets	3,470,377	-	-	3,470,377
CHANGE IN NET ASSETS	**$ 3,506,849**	**$ (1,185)**	**$ -**	**$ 3,505,664**

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINING SCHEDULE OF CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Forest Trends Association	The Katoomba Group	Eliminations	Total
UNRESTRICTED NET ASSETS				
Net assets at beginning of year	$ (357,835)	$ -	$ -	$ (357,835)
Change in unrestricted net assets	36,472	(1,185)	-	35,287
NET ASSETS AT END OF YEAR	**$ (321,363)**	**$ (1,185)**	**$ -**	**$ (322,548)**
TEMPORARILY RESTRICTED NET ASSETS				
Net assets at beginning of year	$ 8,458,841	$ -	$ -	$ 8,458,841
Change in temporarily restricted net assets	3,470,377	-	-	3,470,377
NET ASSETS AT END OF YEAR	**$11,929,218**	**$ -**	**$ -**	**$ 11,929,218**