

**COMBINED FINANCIAL STATEMENTS**

**FOREST TRENDS ASSOCIATION**

**THE KATOOMBA GROUP**

**FOR THE YEARS ENDED  
DECEMBER 31, 2013 AND 2012**

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

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## 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, 2013 and 2012, 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 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.GRF CPA.COM

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

### **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, 2013 and 2012, 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 audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Schedule of Financial Position on pages 20 - 21, Combining Schedule of Activities on page 22 and Combining Schedule of Change in Net Assets on page 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*

June 5, 2014

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>		<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	1,984,952	\$ 3,569,835
Contracts and other receivables, net of allowance for doubtful accounts of \$0 and \$77,000 in 2013 and 2012, respectively		578,069	354,037
Grants receivable (Notes 2 and 8)		5,760,314	4,911,267
Prepaid expenses and other assets		<u>34,109</u>	<u>13,840</u>
Total current assets		<u>8,357,444</u>	<u>8,848,979</u>
<b>FIXED ASSETS</b>			
Fixed assets, net of accumulated depreciation and amortization of \$208,451 and \$201,250 for 2013 and 2012, respectively (Note 3)		<u>5,740</u>	<u>12,941</u>
<b>NONCURRENT ASSETS</b>			
Grants receivable, net of current portion (Notes 2 and 8)		1,038,362	3,945,336
Deposits		<u>38,528</u>	<u>38,528</u>
Total noncurrent assets		<u>1,076,890</u>	<u>3,983,864</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>9,440,074</u></b>	<b>\$ <u>12,845,784</u></b>

## LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Deferred rent liability, current portion (Note 7)	\$ 9,723	\$ -
Line of credit (Note 5)	300,000	450,000
Accounts payable and accrued liabilities	1,211,503	700,327
Grants payable	<u>-</u>	<u>12,500</u>
Total current liabilities	<u>1,521,226</u>	<u>1,162,827</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred rent liability, net of current portion (Note 7)	<u>83,521</u>	<u>76,287</u>
Total liabilities	<u>1,604,747</u>	<u>1,239,114</u>
<b>NET ASSETS</b>		
Unrestricted	(197,289)	(322,548)
Temporarily restricted (Note 4)	<u>8,032,616</u>	<u>11,929,218</u>
Total net assets	<u>7,835,327</u>	<u>11,606,670</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 9,440,074</u></b>	<b><u>\$ 12,845,784</u></b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Grants (Notes 8 and 9)	\$ -	\$ 4,614,217	\$ 4,614,217
Contributions	599,075	-	599,075
Contracts	1,498	-	1,498
Interest income	4,057	-	4,057
Other revenue	6,299	-	6,299
Net assets released from donor restrictions (Note 4)	<u>8,510,819</u>	<u>(8,510,819)</u>	<u>-</u>
Total support and revenue	<u>9,121,748</u>	<u>(3,896,602)</u>	<u>5,225,146</u>
<b>EXPENSES</b>			
Program Services:			
Forest Services and Communities	590,500	-	590,500
Ecosystem Marketplace	1,308,708	-	1,308,708
Forest Trade and Finance	3,260,400	-	3,260,400
Business and Biodiversity Offsets	514,099	-	514,099
Water and Marine	1,767,508	-	1,767,508
The Katoomba Group	196,351	-	196,351
Public/Private Co-Financing	<u>531,953</u>	<u>-</u>	<u>531,953</u>
Total program services	<u>8,169,519</u>	<u>-</u>	<u>8,169,519</u>
Supporting Services:			
Management and General	728,273	-	728,273
Fundraising	<u>98,697</u>	<u>-</u>	<u>98,697</u>
Total supporting services	<u>826,970</u>	<u>-</u>	<u>826,970</u>
Total expenses	<u>8,996,489</u>	<u>-</u>	<u>8,996,489</u>
Changes in net assets	125,259	(3,896,602)	(3,771,343)
Net assets at beginning of year	<u>(322,548)</u>	<u>11,929,218</u>	<u>11,606,670</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ (197,289)</u></b>	<b><u>\$ 8,032,616</u></b>	<b><u>\$ 7,835,327</u></b>

See accompanying notes to combined financial statements.

<b>2012</b>		
<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
\$ -	\$ 9,763,400	\$ 9,763,400
50,893	-	50,893
170,280	-	170,280
3,310	-	3,310
203	-	203
<u>6,293,023</u>	<u>(6,293,023)</u>	<u>-</u>
<u>6,517,709</u>	<u>3,470,377</u>	<u>9,988,086</u>
397,626	-	397,626
1,130,331	-	1,130,331
1,361,984	-	1,361,984
470,523	-	470,523
1,277,323	-	1,277,323
348,666	-	348,666
<u>370,586</u>	<u>-</u>	<u>370,586</u>
<u>5,357,039</u>	<u>-</u>	<u>5,357,039</u>
1,034,553	-	1,034,553
<u>90,830</u>	<u>-</u>	<u>90,830</u>
<u>1,125,383</u>	<u>-</u>	<u>1,125,383</u>
<u>6,482,422</u>	<u>-</u>	<u>6,482,422</u>
35,287	3,470,377	3,505,664
<u>(357,835)</u>	<u>8,458,841</u>	<u>8,101,006</u>
<u>\$ (322,548)</u>	<u>\$ 11,929,218</u>	<u>\$ 11,606,670</u>

See accompanying notes to combined financial statements.

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

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

	<b>Program Services</b>				
	<b>Forest Services and Communities</b>	<b>Ecosystem Marketplace</b>	<b>Forest Trade and Finance</b>	<b>Business and Biodiversity Offsets</b>	<b>Water and Marine</b>
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
Publications	16,625	35,580	59,465	13,614	29,881
Partner expenses	18,178	121,309	255,937	-	215,020
Subgrants	34,358	134,367	240,295	8,000	587,753
Bad debt	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 590,500</b>	<b>\$ 1,308,708</b>	<b>\$ 3,260,400</b>	<b>\$ 514,099</b>	<b>\$ 1,767,508</b>

<b>Supporting Services</b>						
<b>The Katoomba Group</b>	<b>Public/ Private Co- Financing</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total Expenses</b>
\$ 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	262,396	565	262,961	400,611
584	10,266	166,015	3,610	1,519	5,129	171,144
(600)	2,275	612,119	-	-	-	612,119
44,192	75,775	1,124,740	-	-	-	1,124,740
-	-	-	79,376	-	79,376	79,376
<b>\$ 196,351</b>	<b>\$ 531,953</b>	<b>\$ 8,169,519</b>	<b>\$ 728,273</b>	<b>\$ 98,697</b>	<b>\$ 826,970</b>	<b>\$ 8,996,489</b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

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

	<b>Program Services</b>				
	<b>Forest Services and Communities</b>	<b>Ecosystem Marketplace</b>	<b>Forest Trade and Finance</b>	<b>Business and Biodiversity Offsets</b>	<b>Water and Marine</b>
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	-	-	-	-	-
<b>TOTAL</b>	<b>\$ 397,626</b>	<b>\$ 1,130,331</b>	<b>\$ 1,361,984</b>	<b>\$ 470,523</b>	<b>\$ 1,277,323</b>

<b>Supporting Services</b>						
<b>The Katoomba Group</b>	<b>Public/ Private Co- Financing</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Supporting Services</b>	<b>Total Expenses</b>
\$ 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	229,200
<b>\$ 348,666</b>	<b>\$ 370,586</b>	<b>\$ 5,357,039</b>	<b>\$ 1,034,553</b>	<b>\$ 90,830</b>	<b>\$ 1,125,383</b>	<b>\$ 6,482,422</b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (3,771,343)	\$ 3,505,664
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	7,201	11,311
Change in discount on grants receivables	(61,808)	38,012
Change in allowance for bad debt	(77,000)	77,000
(Increase) decrease in:		
Contracts and other receivables	(147,032)	(278,915)
Grants receivable	2,119,735	(2,922,105)
Prepaid expenses and other assets	(20,269)	26,101
Deposits	-	(38,528)
Increase (decrease) in:		
Accounts payable and accrued liabilities	511,176	72,707
Grants payable	(12,500)	-
Deferred rent liability	<u>16,957</u>	<u>76,287</u>
Net cash (used) provided by operating activities	<u>(1,434,883)</u>	<u>567,534</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	775,000	575,000
Payments on line of credit	<u>(925,000)</u>	<u>(125,000)</u>
Net cash (used) provided by financing activities	<u>(150,000)</u>	<u>450,000</u>
Net (decrease) increase in cash and cash equivalents	(1,584,883)	1,017,534
Cash and cash equivalents at beginning of year	<u>3,569,835</u>	<u>2,552,301</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,984,952</u></b>	<b><u>\$ 3,569,835</u></b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest Paid	<b><u>\$ 1,125</u></b>	<b><u>\$ 1,066</u></b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**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 2013 and 2012, 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 June 5, 2014.

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 -

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, 2013, management considers all amounts to be fully collectible. Accordingly an allowance for doubtful accounts was not established. As of December 31, 2012, management had established an allowance in the amount of \$77,000.

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.

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

Grants, contracts, and other receivables (continued) -

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. 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, 2013 and 2012, 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.

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

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

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.

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 RECEIVABLE**

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.

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.

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**2. GRANTS RECEIVABLE Continued)**

Grants receivable are due to be collected as follows:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 5,760,314	\$ 4,911,267
One to five years	<u>1,054,601</u>	<u>4,023,383</u>
	6,814,915	8,934,650
Less: Discount to present value (1%)	<u>(16,239)</u>	<u>(78,047)</u>
	<b><u>\$ 6,798,676</u></b>	<b><u>\$ 8,856,603</u></b>

**3. FIXED ASSETS**

Fixed assets at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 53,749	\$ 53,749
Software and hardware	<u>160,442</u>	<u>160,442</u>
	214,191	214,191
Less: Accumulated depreciation and amortization	<u>(208,451)</u>	<u>(201,250)</u>
	<b><u>\$ 5,740</u></b>	<b><u>\$ 12,941</u></b>

**4. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2013 and 2012, temporarily restricted net assets consisted of the following:

	<u>2013</u>	<u>2012</u>
Forest Services and Communities	\$ 1,443,352	\$ 600,921
Ecosystem Marketplace	458,275	1,343,969
Forest Trade and Finance	5,086,823	7,461,369
Business and Biodiversity Offsets	368,096	414,879
Water and Marine	286,100	1,784,870
The Katoomba Group	346,299	20,244
Public/Private Co-Financing	<u>43,671</u>	<u>302,966</u>
	<b><u>\$ 8,032,616</u></b>	<b><u>\$11,929,218</u></b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**4. TEMPORARILY RESTRICTED NET ASSETS (Continued)**

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.

	<b>2013</b>	<b>2012</b>
Forest Services and Communities	\$ 634,419	\$ 412,547
Ecosystem Marketplace	1,288,897	1,155,758
Forest Trade and Finance	3,338,976	1,781,398
Business and Biodiversity Offsets	568,467	659,828
Water and Marine	2,006,628	1,469,652
The Katoomba Group	146,477	403,342
Public/Private Co-Financing	526,955	410,498
	<b><u>\$ 8,510,819</u></b>	<b><u>\$ 6,293,023</u></b>

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

**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, 2013 and 2012).

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, 2013 and 2012, the Association was in compliance with these covenants. As of December 31, 2013 and 2012, the principal balance due under the line of credit aggregated \$300,000 and \$450,000, respectively.

**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, 2013 and 2012, contributions totaled \$158,816 and \$146,295, 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.

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**7. LEASE COMMITMENT (Continued)**

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,**

2014	\$ 238,585
2015	246,928
2016	255,597
2017	264,545
2018	<u>22,108</u>
	<b><u>\$ 1,027,763</u></b>

Rent expense is included in the accompanying Combined Statements of Functional Expenses in "Office expenses". During the years ended December 31, 2013 and 2012, rent expense totaled \$236,374 and \$184,696, respectively.

**8. CONCENTRATION OF REVENUE AND RECEIVABLES**

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.

Approximately 67% of grants 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.

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 2013. 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 2013 and 2012, the Association did not meet the criteria for an audit under OMB Circular A-133.

**FOREST TRENDS ASSOCIATION  
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**NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**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, 2013, FTA has received obligations from USAID totaling \$2,835,000; as of December 31, 2013, FTA has spent \$168,593 of the total obligations to date. The total unliquidated obligation of \$2,666,407, as well as the remaining unliquidated balance of the entire award of \$12,826,152 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 June 5, 2014, 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, 2013**

	<b>ASSETS</b>			
	<b>Forest Trends Association</b>	<b>The Katoomba Group</b>	<b>Eliminations</b>	<b>Total</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 1,972,771	\$ 12,181	\$ -	\$ 1,984,952
Contracts and other receivables	578,069	-	-	578,069
Grants receivable	5,760,314	-	-	5,760,314
Due from related party	16,417	-	(16,417)	-
Prepaid expenses and other assets	<u>33,824</u>	<u>285</u>	<u>-</u>	<u>34,109</u>
Total current assets	<u>8,361,395</u>	<u>12,466</u>	<u>(16,417)</u>	<u>8,357,444</u>
<b>FIXED ASSETS</b>				
Fixed assets, net of accumulated depreciation and amortization of \$208,451	<u>5,740</u>	<u>-</u>	<u>-</u>	<u>5,740</u>
<b>NONCURRENT ASSETS</b>				
Grants receivable, net of current portion	1,038,362	-	-	1,038,362
Deposits	<u>38,528</u>	<u>-</u>	<u>-</u>	<u>38,528</u>
Total noncurrent assets	<u>1,076,890</u>	<u>-</u>	<u>-</u>	<u>1,076,890</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,444,025</u></b>	<b><u>\$ 12,466</u></b>	<b><u>\$ (16,417)</u></b>	<b><u>\$ 9,440,074</u></b>

## LIABILITIES AND NET ASSETS

	<u>Forest Trends Association</u>	<u>The Katoomba Group</u>	<u>Eliminations</u>	<u>Total</u>
<b>CURRENT LIABILITIES</b>				
Deferred rent liability, current portion	\$ 9,723	\$ -	\$ -	\$ 9,723
Line of credit	300,000	-	-	300,000
Accounts payable and accrued liabilities	1,211,503	-	-	1,211,503
Due to related party	<u>-</u>	<u>16,417</u>	<u>(16,417)</u>	<u>-</u>
Total current liabilities	<u>1,521,226</u>	<u>16,417</u>	<u>(16,417)</u>	<u>1,521,226</u>
<b>LONG-TERM LIABILITIES</b>				
Deferred rent liability, net of current portion	<u>83,521</u>	<u>-</u>	<u>-</u>	<u>83,521</u>
Total liabilities	<u>1,604,747</u>	<u>16,417</u>	<u>(16,417)</u>	<u>1,604,747</u>
<b>NET ASSETS</b>				
Unrestricted	(193,338)	(3,951)	-	(197,289)
Temporarily restricted	<u>8,032,616</u>	<u>-</u>	<u>-</u>	<u>8,032,616</u>
Total net assets	<u>7,839,278</u>	<u>(3,951)</u>	<u>-</u>	<u>7,835,327</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 9,444,025</u></b>	<b><u>\$ 12,466</u></b>	<b><u>\$ (16,417)</u></b>	<b><u>\$ 9,440,074</u></b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**COMBINING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Forest Trends Association</b>	<b>The Katoomba Group</b>	<b>Eliminations</b>	<b>Total</b>
<b>UNRESTRICTED REVENUE</b>				
Contributions	\$ 599,075	\$ -	\$ -	\$ 599,075
Contracts	1,498	-	-	1,498
Interest income	4,039	18	-	4,057
Other revenue	6,299	-	-	6,299
Net assets released from donor restrictions	<u>8,510,819</u>	<u>-</u>	<u>-</u>	<u>8,510,819</u>
Total unrestricted revenue	<u>9,121,730</u>	<u>18</u>	<u>-</u>	<u>9,121,748</u>
<b>EXPENSES</b>				
Program Services:				
Forest Services and Communities	590,500	-	-	590,500
Ecosystem Marketplace	1,308,708	-	-	1,308,708
Forest Trade and Finance	3,260,400	-	-	3,260,400
Business and Biodiversity Offsets	514,099	-	-	514,099
Water and Marine	1,767,508	-	-	1,767,508
The Katoomba Group	193,567	2,784	-	196,351
Public/Private Co-Financing	<u>531,953</u>	<u>-</u>	<u>-</u>	<u>531,953</u>
Total program services	<u>8,166,735</u>	<u>2,784</u>	<u>-</u>	<u>8,169,519</u>
Supporting Services:				
Management and General	728,273	-	-	728,273
Fundraising	<u>98,697</u>	<u>-</u>	<u>-</u>	<u>98,697</u>
Total supporting services	<u>826,970</u>	<u>-</u>	<u>-</u>	<u>826,970</u>
Total expenses	<u>8,993,705</u>	<u>2,784</u>	<u>-</u>	<u>8,996,489</u>
Change in unrestricted net assets	<u>128,025</u>	<u>(2,766)</u>	<u>-</u>	<u>125,259</u>
<b>TEMPORARILY RESTRICTED REVENUE</b>				
Grants	4,614,217	-	-	4,614,217
Net assets released from donor restrictions	<u>(8,510,819)</u>	<u>-</u>	<u>-</u>	<u>(8,510,819)</u>
Change in temporarily restricted net assets	<u>(3,896,602)</u>	<u>-</u>	<u>-</u>	<u>(3,896,602)</u>
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ (3,768,577)</u></b>	<b><u>\$ (2,766)</u></b>	<b><u>-</u></b>	<b><u>\$ (3,771,343)</u></b>

**FOREST TRENDS ASSOCIATION  
THE KATOOMBA GROUP**

**COMBINING SCHEDULE OF CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Forest Trends Association</u>	<u>The Katoomba Group</u>	<u>Eliminations</u>	<u>Total</u>
<b>UNRESTRICTED NET ASSETS</b>				
Net assets at beginning of year	\$ (321,363)	\$ (1,185)	\$ -	\$ (322,548)
Change in unrestricted net assets	<u>128,025</u>	<u>(2,766)</u>	<u>-</u>	<u>125,259</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ (193,338)</u></b>	<b><u>\$ (3,951)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (197,289)</u></b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>				
Net assets at beginning of year	\$11,929,218	\$ -	\$ -	\$11,929,218
Change in temporarily restricted net assets	<u>(3,896,602)</u>	<u>-</u>	<u>-</u>	<u>(3,896,602)</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 8,032,616</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,032,616</u></b>