

COMBINED FINANCIAL STATEMENTS

FOREST TRENDS ASSOCIATION

THE KATOOMBA GROUP

**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015, 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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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, 2016 and 2015, 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 Combined Schedule of Activities - Grants and Contracts from U.S. Government Agencies, Private Foundations and Other Organizations on pages 20 - 23 is presented for purposes of additional analysis and is 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.



May 11, 2017

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015**

ASSETS

| | <u>2016</u> | <u>2015</u> |
|---|----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,528,856 | \$ 1,594,711 |
| Investments | 1,241 | - |
| Grants and contracts receivable | 3,711,118 | 6,896,347 |
| Other receivables | 55,589 | 126,100 |
| Prepaid expenses and other assets | <u>28,961</u> | <u>37,540</u> |
| Total current assets | <u>5,325,765</u> | <u>8,654,698</u> |
| FIXED ASSETS | | |
| Fixed assets, net of accumulated depreciation and amortization of \$318,217 and \$218,505 for 2016 and 2015, respectively | <u>232,468</u> | <u>153,280</u> |
| NONCURRENT ASSETS | | |
| Grants and contracts receivable, net of current portion | 820,712 | 2,523,718 |
| Deposits | <u>38,528</u> | <u>38,528</u> |
| Total noncurrent assets | <u>859,240</u> | <u>2,562,246</u> |
| TOTAL ASSETS | <u>\$ 6,417,473</u> | <u>\$ 11,370,224</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|----------------------------|-----------------------------|
| CURRENT LIABILITIES | | |
| Line of credit | \$ 850,000 | \$ - |
| Accounts payable and accrued liabilities | 2,424,084 | 3,000,408 |
| Refundable contract advance | 61,697 | 20,970 |
| Deferred rent liability | 35,684 | 26,735 |
| Capital lease obligation | <u>14,796</u> | <u>-</u> |
| Total current liabilities | <u>3,386,261</u> | <u>3,048,113</u> |
| LONG-TERM LIABILITIES | | |
| Deferred rent liability, net of current portion | 3,036 | 38,720 |
| Capital lease obligation, net of current portion | <u>17,448</u> | <u>-</u> |
| Total long-term liabilities | <u>20,484</u> | <u>38,720</u> |
| Total liabilities | <u>3,406,745</u> | <u>3,086,833</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Undesignated deficit | (869,675) | (229,485) |
| Board designated | <u>679,716</u> | <u>820,552</u> |
| Total unrestricted net (deficit) assets | (189,959) | 591,067 |
| Temporarily restricted | <u>3,200,687</u> | <u>7,692,324</u> |
| Total net assets | <u>3,010,728</u> | <u>8,283,391</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,417,473</u> | <u>\$ 11,370,224</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, 2016 AND 2015**

| | <u>2016</u> | | |
|---|----------------------------|-----------------------------------|----------------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
| SUPPORT AND REVENUE | | | |
| Grants and contracts | \$ 13,540 | \$ 5,030,384 | \$ 5,043,924 |
| Contributions | 234,492 | - | 234,492 |
| Interest income | 2,916 | - | 2,916 |
| Investment income | 44 | - | 44 |
| Other revenue | 4,218 | - | 4,218 |
| Net assets released from donor restrictions | <u>9,522,021</u> | <u>(9,522,021)</u> | <u>-</u> |
| Total support and revenue | <u>9,777,231</u> | <u>(4,491,637)</u> | <u>5,285,594</u> |
| EXPENSES | | | |
| Program Services: | | | |
| Communities | 3,167,956 | - | 3,167,956 |
| Ecosystem Marketplace | 1,025,767 | - | 1,025,767 |
| Forest Policy, Trade and Finance | 1,978,967 | - | 1,978,967 |
| Biodiversity | 404,131 | - | 404,131 |
| Water and Marine | 1,549,299 | - | 1,549,299 |
| Public-Private Finance | 764,118 | - | 764,118 |
| Coastal and Marine | 7,671 | - | 7,671 |
| The Katoomba Group | <u>1,403</u> | <u>-</u> | <u>1,403</u> |
| Total program services | <u>8,899,312</u> | <u>-</u> | <u>8,899,312</u> |
| Supporting Services: | | | |
| Management and General | 1,638,936 | - | 1,638,936 |
| Fundraising | <u>20,009</u> | <u>-</u> | <u>20,009</u> |
| Total supporting services | <u>1,658,945</u> | <u>-</u> | <u>1,658,945</u> |
| Total expenses | <u>10,558,257</u> | <u>-</u> | <u>10,558,257</u> |
| Changes in net assets | (781,026) | (4,491,637) | (5,272,663) |
| Net assets at beginning of year | <u>591,067</u> | <u>7,692,324</u> | <u>8,283,391</u> |
| NET ASSETS AT END OF YEAR | <u>\$ (189,959)</u> | <u>\$ 3,200,687</u> | <u>\$ 3,010,728</u> |

| 2015 | | |
|--------------------------|-----------------------------------|----------------------------|
| Unrestricted | Temporarily Restricted | Total |
| \$ 153,350 | \$ 11,417,012 | \$ 11,570,362 |
| 411,653 | - | 411,653 |
| 4,265 | - | 4,265 |
| - | - | - |
| 4,021 | - | 4,021 |
| <u>10,752,039</u> | <u>(10,752,039)</u> | <u>-</u> |
| <u>11,325,328</u> | <u>664,973</u> | <u>11,990,301</u> |
| 2,913,267 | - | 2,913,267 |
| 1,098,494 | - | 1,098,494 |
| 2,771,136 | - | 2,771,136 |
| 439,788 | - | 439,788 |
| 1,890,330 | - | 1,890,330 |
| 1,053,223 | - | 1,053,223 |
| - | - | - |
| <u>1,284</u> | <u>-</u> | <u>1,284</u> |
| <u>10,167,522</u> | <u>-</u> | <u>10,167,522</u> |
| 1,446,067 | - | 1,446,067 |
| <u>36,818</u> | <u>-</u> | <u>36,818</u> |
| <u>1,482,885</u> | <u>-</u> | <u>1,482,885</u> |
| <u>11,650,407</u> | <u>-</u> | <u>11,650,407</u> |
| (325,079) | 664,973 | 339,894 |
| <u>916,146</u> | <u>7,027,351</u> | <u>7,943,497</u> |
| <u>\$ 591,067</u> | <u>\$ 7,692,324</u> | <u>\$ 8,283,391</u> |

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Program Services</u> | | | | |
|--------------------------|----------------------------|----------------------------------|---|--------------------------|-----------------------------|
| | <u>Communities</u> | <u>Ecosystem Marketplace</u> | <u>Forest Policy, Trade and Finance</u> | <u>Biodiversity</u> | <u>Water and Marine</u> |
| Salaries and benefits | \$ 631,134 | \$ 771,260 | \$ 646,053 | \$ 117,668 | \$ 555,889 |
| Consultants | 645,823 | 214,281 | 968,293 | 273,592 | 331,122 |
| Meetings and conferences | 148,262 | 3,824 | 136,732 | 1,620 | 114,277 |
| Travel | 55,826 | 22,948 | 47,751 | 5,006 | 104,898 |
| Office expenses | 14,364 | 6,824 | 85,280 | 4,792 | 19,927 |
| Communications | 2,841 | 6,630 | 7,858 | 1,453 | 4,741 |
| Partner expenses | 12,952 | - | - | - | 253,915 |
| Subgrants | 1,656,754 | - | 87,000 | - | 164,530 |
| Bad debt | - | - | - | - | - |
| TOTAL | <u>\$ 3,167,956</u> | <u>\$ 1,025,767</u> | <u>\$ 1,978,967</u> | <u>\$ 404,131</u> | <u>\$ 1,549,299</u> |

| Supporting Services | | | | | | | |
|-------------------------------|---------------------------|---------------------------|-------------------------------|-------------------------------|--------------------|----------------------------------|-----------------------|
| Public-Private Finance | Coastal and Marine | The Katoomba Group | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
| \$ 399,855 | \$ 6,546 | \$ - | \$ 3,128,405 | \$ 927,019 | \$ 16,600 | \$ 943,619 | \$ 4,072,024 |
| 345,309 | 1,125 | 1,403 | 2,780,948 | 127,562 | 696 | 128,258 | 2,909,206 |
| 8,259 | - | - | 412,974 | 65,683 | - | 65,683 | 478,657 |
| 8,926 | - | - | 245,355 | 103,728 | 1,043 | 104,771 | 350,126 |
| 1,769 | - | - | 132,956 | 392,965 | 576 | 393,541 | 526,497 |
| - | - | - | 23,523 | 13,699 | 1,094 | 14,793 | 38,316 |
| - | - | - | 266,867 | - | - | - | 266,867 |
| - | - | - | 1,908,284 | - | - | - | 1,908,284 |
| - | - | - | - | 8,280 | - | 8,280 | 8,280 |
| \$ 764,118 | \$ 7,671 | \$ 1,403 | \$ 8,899,312 | \$ 1,638,936 | \$ 20,009 | \$ 1,658,945 | \$ 10,558,257 |

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Program Services | | | | |
|--------------------------|-------------------------|----------------------------------|---|---------------------|-----------------------------|
| | Communities | Ecosystem Marketplace | Forest Policy, Trade and Finance | Biodiversity | Water and Marine |
| Salaries and benefits | \$ 566,422 | \$ 732,865 | \$ 764,165 | \$ 105,610 | \$ 558,100 |
| Consultants | 475,072 | 206,621 | 1,196,758 | 303,275 | 209,355 |
| Meetings and conferences | 115,937 | 8,303 | 198,124 | 15,469 | 99,976 |
| Travel | 72,666 | 29,830 | 48,181 | 7,373 | 92,573 |
| Office expenses | 20,353 | 5,958 | 89,847 | 7,002 | 13,152 |
| Communications | 2,827 | 21,861 | 6,537 | 1,059 | 2,073 |
| Partner expenses | 8,227 | 588 | 335,874 | - | 358,030 |
| Subgrants | 1,524,553 | 92,468 | 131,650 | - | 557,071 |
| Bad debt | 127,210 | - | - | - | - |
| TOTAL | \$ 2,913,267 | \$ 1,098,494 | \$ 2,771,136 | \$ 439,788 | \$ 1,890,330 |

| Supporting Services | | | | | | |
|-------------------------------|---------------------------|-------------------------------|-------------------------------|--------------------|----------------------------------|-----------------------|
| Public-Private Finance | The Katoomba Group | Total Program Services | Management and General | Fundraising | Total Supporting Services | Total Expenses |
| \$ 381,519 | \$ - | \$ 3,108,681 | \$ 769,835 | \$ 26,753 | \$ 796,588 | \$ 3,905,269 |
| 260,064 | 1,284 | 2,652,429 | 147,746 | - | 147,746 | 2,800,175 |
| 65,649 | - | 503,458 | 78,525 | - | 78,525 | 581,983 |
| 59,843 | - | 310,466 | 123,773 | 2,991 | 126,764 | 437,230 |
| 5,488 | - | 141,800 | 287,693 | 5,833 | 293,526 | 435,326 |
| 132 | - | 34,489 | 19,941 | 1,241 | 21,182 | 55,671 |
| 14,294 | - | 717,013 | - | - | - | 717,013 |
| 266,234 | - | 2,571,976 | - | - | - | 2,571,976 |
| - | - | 127,210 | 18,554 | - | 18,554 | 145,764 |
| \$ 1,053,223 | \$ 1,284 | \$ 10,167,522 | \$ 1,446,067 | \$ 36,818 | \$ 1,482,885 | \$ 11,650,407 |

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ (5,272,663) | \$ 339,894 |
| Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities: | | |
| Depreciation and amortization | 99,712 | 4,460 |
| Unrealized gain on investments | (44) | - |
| Change in discount on grants receivables | (109,910) | 93,613 |
| Bad debt | 8,280 | 145,764 |
| Donated stock | (1,197) | - |
| (Increase) decrease in: | | |
| Grants and contracts receivable | 4,989,865 | (322,337) |
| Other receivables | 70,511 | 137,686 |
| Prepaid expenses and other assets | 8,579 | 4,063 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (576,324) | 74,543 |
| Refundable contract advance | 40,727 | 20,970 |
| Deferred rent liability | <u>(26,735)</u> | <u>(18,066)</u> |
| Net cash (used) provided by operating activities | <u>(769,199)</u> | <u>480,590</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | <u>(134,448)</u> | <u>(67,972)</u> |
| Net cash used by investing activities | <u>(134,448)</u> | <u>(67,972)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from line of credit | 2,850,000 | 1,750,000 |
| Payments on line of credit | (2,000,000) | (2,050,000) |
| Principal payments on capital lease obligation | <u>(12,208)</u> | <u>-</u> |
| Net cash provided (used) by financing activities | <u>837,792</u> | <u>(300,000)</u> |
| Net (decrease) increase in cash and cash equivalents | (65,855) | 112,618 |
| Cash and cash equivalents at beginning of year | <u>1,594,711</u> | <u>1,482,093</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 1,528,856</u> | <u>\$ 1,594,711</u> |
| SUPPLEMENTAL INFORMATION: | | |
| Interest Paid | <u>\$ 19,231</u> | <u>\$ 17,503</u> |
| Fixed Assets Acquired through Capital Lease | <u>\$ 44,452</u> | <u>\$ -</u> |

See accompanying notes to combined financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Forest Trends Association (FTA) is a not-for-profit organization incorporated in the District of Columbia in 1996. FTA'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 FTA. 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 2016 and 2015, although the programmatic activities continue to operate as a program of FTA. During year ended December 31, 2016 and 2015, support and revenue totaled \$6 and \$18, respectively. During year ended December 31, 2016 and 2015, expenses totaled \$1,403 and \$1,284, respectively. As of December 31, 2016 and 2015, the Group owed FTA \$7,406 and \$6,003, respectively. Management has considered merging the Group into FTA, but the future of the Group as a separate legal entity has yet to be determined as of May 11, 2017.

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.

Investments -

Investments are presented in the accompanying financial statements at fair value. Unrealized gains are included in investment income in the accompanying Combined Statements of Activities and Changes in Net Assets.

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.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

Grants, contracts, and other receivables (continued) -

Amortization of the discounts and the related foreign exchange gains and losses are included in grants and contracts revenue 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.

Contracts and other receivable are recorded at their net realizable value, which approximates fair value.

As of December 31, 2016 and 2015, management considers all grants, contracts and other receivables to be fully collectible. Accordingly, an allowance for doubtful accounts was not established.

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. On May 7, 2015, the Board of Directors established a \$1,000,000 Board designated fund (with donor funds advised for such use), including \$500,000 of reserves, \$300,000 of "revolving" project funds (for new opportunities and project launches), and \$200,000 of core operating designated funds. During 2016 and 2015 amounts were drawn from the designated funds for use in operations. As of December 31, 2016 and 2015, the balance of all Board designated funds aggregated \$679,716 and \$820,552, respectively.
- **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 -

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

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

Income taxes (continued) -

The 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, 2016 and 2015, 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.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions 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; any funds received in advance of incurring qualifying expenditures are recorded as refundable contract advance.

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.

New accounting pronouncement -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

New accounting pronouncement (continued) -

The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Combined Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Association's combined financial statements, it is not expected to alter the Association's reported financial position. The Association has elected to defer implementation until the required reporting date.

2. INVESTMENTS

Investments are presented in the combined financial statements at fair value and are comprised of the following at December 31, 2016 and 2015:

| | 2016 | 2015 |
|-----------------|-----------------|-------------|
| Equities | \$ 1,241 | \$ - |

Included in Investment income the Combined Statements of Activities and Changes in Net Assets is the following:

| | 2016 | 2015 |
|---------------------------------------|--------------|-------------|
| Unrealized Gain on Investments | \$ 44 | \$ - |

In accordance with FASB ASC 820, Fair Value Measurement, the Association has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Combined Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Association has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

2. INVESTMENTS (Continued)

Following is a description of the investments held by the Association as of December 31, 2016:

Equities - Valued at the closing price reported on the active market in which the individual securities are traded are categorized as **Level 1**.

3. 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, using a discount rate of 4%. 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:

| | 2016 | 2015 |
|---------------------------------|---------------------|---------------------|
| Less than one year | \$ 3,711,118 | \$ 6,896,347 |
| One to five years | 890,572 | 2,703,488 |
| | 4,601,690 | 9,599,835 |
| Less: Discount to present value | (69,860) | (179,770) |
| | \$ 4,531,830 | \$ 9,420,065 |

4. FIXED ASSETS

Fixed assets at December 31, 2016 and 2015 consisted of the following:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Furniture and equipment | \$ 98,201 | \$ 53,749 |
| Computer hardware and software | 438,879 | 304,431 |
| Leasehold improvements | 13,605 | 13,605 |
| | 550,685 | 371,785 |
| Less: Accumulated depreciation and amortization | (318,217) | (218,505) |
| | \$ 232,468 | \$ 153,280 |

5. CAPITAL LEASE OBLIGATION

In 2016, the Association entered into a capital lease obligation for a telephone system, which expires in 2019. As of December 31, 2016, the cost and related accumulated amortization of the leased asset were \$44,452 and \$1,235, respectively. Amortization of assets held under capital leases is included with depreciation and amortization expense.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

5. CAPITAL LEASE OBLIGATION (Continued)

Future minimum lease payments at December 31, 2016 are as follows:

Year Ending December 31,

| | | | |
|--------------------------|--|-----------|----------------------|
| | | \$ | |
| 2017 | | | 15,048 |
| 2018 | | | 15,048 |
| 2019 | | | <u>2,508</u> |
| | | | 32,604 |
| Less: Interest | | | <u>(360)</u> |
| | | | 32,244 |
| Less: Current portion | | | <u>(14,796)</u> |
| LONG-TERM PORTION | | \$ | <u>17,448</u> |

6. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets consisted of the following:

| | <u>2016</u> | | <u>2015</u> |
|----------------------------------|----------------------------|------------------|-------------------------|
| Forest Policy, Trade and Finance | \$ 1,469,328 | \$ | 3,358,007 |
| Public-Private Finance | 646,692 | | 656,149 |
| Ecosystem Marketplace | 432,886 | | 1,144,744 |
| Biodiversity | 346,259 | | 31,789 |
| Water and Marine | 204,630 | | 1,887,956 |
| Communities | 63,459 | | 613,679 |
| Time Restricted | <u>37,433</u> | | <u>-</u> |
| | <u>\$ 3,200,687</u> | <u>\$</u> | <u>7,692,324</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>2016</u> | | <u>2015</u> |
|----------------------------------|----------------------------|------------------|--------------------------|
| Forest Policy, Trade and Finance | \$ 2,079,860 | \$ | 3,003,280 |
| Public-Private Finance | 1,001,994 | | 1,154,293 |
| Ecosystem Marketplace | 948,781 | | 1,138,212 |
| Biodiversity | 219,365 | | 127,025 |
| Water and Marine | 1,807,239 | | 2,075,933 |
| Communities | 3,432,214 | | 3,253,296 |
| Passage of time | <u>32,568</u> | | <u>-</u> |
| | <u>\$ 9,522,021</u> | <u>\$</u> | <u>10,752,039</u> |

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

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. LINE OF CREDIT

On 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 4.50% and 5.75% as of December 31, 2016 and 2015, respectively).

Borrowings under the line of credit are secured by all of the Association's assets. Borrowings are subject to various covenants throughout the year. As of December 31, 2016, the principal balance due under the line of credit aggregated \$850,000. As of December 31, 2015, there were no outstanding borrowings.

8. 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, 2016 and 2015, contributions totaled \$225,179 and \$222,089, respectively.

9. 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, 2016 and 2015, the deferred rent liability aggregated \$38,720 and \$65,455, respectively.

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

Year Ended December 31,

| | |
|------|--------------------------|
| 2017 | \$ 264,545 |
| 2018 | <u>22,108</u> |
| | <u>\$ 286,653</u> |

Rent expense is included in the accompanying Combined Statements of Functional Expenses in "Office expenses". During the years ended December 31, 2016 and 2015, rent expense totaled \$232,666 and \$225,481, respectively.

10. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 75% of the Association's contributions, grants and contracts revenue during the year ended December 31 2016 (and 69% of grants and contracts receivable as of December 31, 2016) was from awards received from two foreign government sources and two domestic sources.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

10. CONCENTRATION OF REVENUE AND RECEIVABLES (Continued)

Approximately 67% of the Association's grants and contracts revenue during the year ended December 31, 2015 (and 81% of grants and contracts receivable as of December 31, 2015) was from awards received from two foreign government sources and two domestic sources.

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

11. CONTINGENCY

FTA receives grants from various agencies of the United States Government. For years through December 31, 2014, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning year ended December 31, 2015, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 applicable provisions have been completed for all required fiscal years through 2016. 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.

12. 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, 2016 and 2015, FTA has received obligations from USAID totaling \$11,186,067 and \$10,010,111, respectively; as of December 31, 2016 and 2015, FTA has spent \$9,885,748 and \$7,220,722 of the total obligations to date, respectively. The total unliquidated obligation of \$1,300,319 and \$2,789,389 as well as the remaining unliquidated balance of the award totaling \$3,108,998 and \$5,774,024 for the years ended December 31, 2016 and 2015, 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.

13. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 11, 2017, the date the combined financial statements were issued.

SUPPLEMENTAL INFORMATION

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED SCHEDULE OF ACTIVITIES - GRANTS AND CONTRACTS FROM U.S. GOVERNMENT
AGENCIES, PRIVATE FOUNDATIONS AND OTHER ORGANIZATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | MacArthur Foundation Core Support | MacArthur Foundation Revolving Fund | MacArthur Foundation Forest Carbon Conservation | JP Morgan Chase | ICI Germany |
|---|--|--|--|----------------------------|------------------------|
| GRANTS AND CONTRACTS | | | | | |
| Grants and contracts from U.S. Government agencies | \$ - | \$ - | \$ - | \$ - | \$ - |
| Grants and contracts from private foundations | - | - | - | - | - |
| Other | - | - | - | - | (131,587) |
| Total grants and contracts | - | - | - | - | (131,587) |
| EXPENSES | | | | | |
| Salaries and fringe benefits | - | 47,529 | 164,480 | 142,637 | 184,984 |
| Consultants and professional fees | 29,757 | 18,155 | 58,656 | 374 | 67,908 |
| Communications | - | 27 | 2,509 | 164 | - |
| Publications | - | - | 257 | 22 | 71 |
| Office expense | - | 612 | 106 | 398 | 8,604 |
| Travel | 5,511 | 18,514 | 3,176 | 5,271 | 7,065 |
| Meetings and conferences | - | 23,262 | - | 571 | - |
| Partner expenses | - | - | - | - | - |
| Subrecipient expenses | - | - | - | - | 87,000 |
| Allocated general and administrative costs | - | - | 34,378 | 24,296 | 42,752 |
| Total expenses | 35,268 | 108,099 | 263,562 | 173,733 | 398,384 |
| CHANGE IN NET ASSETS | \$ (35,268) | \$ (108,099) | \$ (263,562) | \$ (173,733) | \$ (529,971) |

| USDA OEM | USAID | IKEA Foundation | Swiss Agency for Development and Cooperation (SDC) | UNEP GEF Supply Change | Good Energies Foundation | DFID II FGMC |
|-------------|--------------|---------------------|---|------------------------------|--------------------------------|-----------------------|
| \$ 83,150 | \$ 2,665,026 | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 141,330 | - | (96,410) | - | - |
| - | - | - | (3,691) | - | - | (290,816) |
| 83,150 | 2,665,026 | 141,330 | (3,691) | (96,410) | - | (290,816) |
| 68,165 | 464,991 | 162,467 | 479,358 | 423,178 | 81,626 | 366,194 |
| 5,520 | 250,338 | 184,331 | 200,319 | 299,218 | 83,940 | 698,906 |
| - | 4,736 | 960 | 6,828 | 3,276 | 3,491 | 9,097 |
| 282 | 448 | 19 | (1,521) | 506 | 1,110 | 4,380 |
| 815 | 7,565 | 668 | 18,147 | 3,312 | 98 | 47,932 |
| 809 | 31,816 | 18,113 | 96,810 | 7,635 | 1,350 | 32,358 |
| - | 103,343 | 23,617 | 113,919 | 4,776 | 542 | 116,066 |
| - | 12,952 | - | 253,915 | - | - | - |
| - | 1,382,499 | 90,000 | 160,655 | - | 30,000 | - |
| 7,559 | 406,338 | 20,219 | 132,845 | 37,095 | 29,986 | 105,557 |
| 83,150 | 2,665,026 | 500,394 | 1,461,275 | 778,996 | 232,143 | 1,380,490 |
| \$ - | \$ - | \$ (359,064) | \$ (1,464,966) | \$ (875,406) | \$ (232,143) | \$ (1,671,306) |

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**COMBINED SCHEDULE OF ACTIVITIES - GRANTS AND CONTRACTS FROM U.S. GOVERNMENT
AGENCIES, PRIVATE FOUNDATIONS AND OTHER ORGANIZATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | D.N. Batten Foundation | MRLG | WCS-ADF | Natem Foundation | NORAD WWF PERU |
|---|-----------------------------------|---------------------|-------------------|-----------------------------|---------------------------|
| GRANTS AND CONTRACTS | | | | | |
| Grants and contracts from U.S. Government agencies | \$ - | \$ - | \$ - | \$ - | \$ - |
| Grants and contracts from private foundations | - | 1,919 | - | 250,000 | - |
| Other | - | - | 487,836 | - | 210,000 |
| Total grants and contracts | - | 1,919 | 487,836 | 250,000 | 210,000 |
| EXPENSES | | | | | |
| Salaries and fringe benefits | 20,196 | 16,448 | 30,754 | 110,890 | 37,898 |
| Consultants and professional fees | 32,775 | 87,791 | 90,632 | 53,396 | 90,903 |
| Communications | - | 17 | - | - | 133 |
| Publications | - | 17 | - | - | 510 |
| Office expense | 147 | 242 | - | - | 423 |
| Travel | 589 | 1,295 | 1,173 | 2,514 | 7,499 |
| Meetings and conferences | 357 | 8,302 | 551 | 885 | - |
| Partner expenses | - | - | - | - | - |
| Subrecipient expenses | 55,430 | - | - | - | - |
| Allocated general and administrative costs | 16,424 | 7,987 | 18,467 | 14,490 | 9,615 |
| Total expenses | 125,918 | 122,099 | 141,577 | 182,175 | 146,981 |
| CHANGE IN NET ASSETS | \$ (125,918) | \$ (120,180) | \$ 346,259 | \$ 67,825 | \$ 63,019 |

| Earth Innovation Institute (through NORAD) | Environment al Defense Fund (through NORAD) | NORAD NICFI | Other Donors/Projects | Total All Grants |
|--|---|-------------------|--------------------------|-----------------------|
| \$ - | \$ - | \$ - | \$ 20,000 | \$ 2,768,176 |
| - | - | - | 361,724 | 658,563 |
| 98,558 | 499,223 | 747,662 | - | 1,617,185 |
| 98,558 | 499,223 | 747,662 | 381,724 | 5,043,924 |
| 40,860 | 27,570 | 37,334 | 1,164,466 | 4,072,025 |
| 49,040 | 53,035 | 194,811 | 359,401 | 2,909,206 |
| 210 | - | 1,600 | 39,579 | 72,627 |
| - | - | 2,742 | 3,227 | 12,070 |
| - | - | 18,652 | 372,396 | 480,117 |
| - | 214 | 5,640 | 102,774 | 350,126 |
| - | 2,047 | 26,452 | 53,966 | 478,656 |
| - | - | - | - | 266,867 |
| - | - | 154,255 | (51,554) | 1,908,285 |
| 6,308 | 5,801 | 30,903 | (951,020) | - |
| 96,418 | 88,667 | 472,389 | 1,093,235 | 10,549,979 |
| \$ 2,140 | \$ 410,556 | \$ 275,273 | \$ (711,511) | \$ (5,506,055) |