COMBINED FINANCIAL STATEMENTS

FOREST TRENDS ASSOCIATION

THE KATOOMBA GROUP

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

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CPAs & ADVISORS

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, 2018 and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Association as of December 31, 2018 and 2017, 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 Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our reports dated September 16, 2019, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Gelman Rosenberg & Freedman

September 16, 2019

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 435,021	$ 884,937
Investments	3,759	1,089
Grants and contracts receivable, net of allowance for doubtful accounts of $144,579 and $25,000 for 2018 and 2017, respectively	4,329,245	2,459,204
Other receivables	24,263	22,074
Prepaid expenses and other assets	15,145	31,596
Total current assets	4,807,433	3,398,900
FIXED ASSETS		
Fixed assets, net of accumulated depreciation and amortization of $521,714 and $417,793 for 2018 and 2017, respectively	29,166	133,087
NONCURRENT ASSETS		
Grants and contracts receivable, net of current portion and net present value discount	1,701,723	789,960
Deposits	38,528	38,528
Total noncurrent assets	1,740,251	828,488
TOTAL ASSETS	**$ 6,576,850**	**$ 4,360,475**

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Line of credit	$ 312,000	$ 425,000
Accounts payable and accrued liabilities	1,836,359	2,412,904
Refundable contract advance	46,600	20,991
Capital lease obligation	2,505	14,943
Total current liabilities	2,197,464	2,873,838
NONCURRENT LIABILITIES		
Deferred rent liability, net of current portion	202,688	42,665
Capital lease obligation, net of current portion	-	2,505
Total noncurrent liabilities	202,688	45,170
Total liabilities	2,400,152	2,919,008
NET ASSETS		
Without donor restrictions:		
Undesignated deficit	(2,098,328)	(1,707,002)
Board designated	640,787	640,787
Total net (deficit) assets without donor restrictions	(1,457,541)	(1,066,215)
With donor restrictions	5,634,239	2,507,682
Total net assets	4,176,698	1,441,467
TOTAL LIABILITIES AND NET ASSETS	**$ 6,576,850**	**$ 4,360,475**

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, 2018 AND 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Grants and contracts	$ 4,747,127	$ 6,037,645	$ 10,784,772	$ 62,197	$ 6,487,952	$ 6,550,149
Contributions	524,839	-	524,839	473,794	-	473,794
Interest income	387	-	387	951	-	951
Investment income (loss)	2,646	-	2,646	(152)	-	(152)
Other revenue	269,844	-	269,844	14,704	-	14,704
Net assets released from donor restrictions	2,911,088	(2,911,088)	-	7,180,957	(7,180,957)	-
Total support and revenue	8,455,931	3,126,557	11,582,488	7,732,451	(693,005)	7,039,446
EXPENSES						
Program Services	7,174,541	-	7,174,541	6,920,112	-	6,920,112
Supporting Services:						
Management and General	1,421,978	-	1,421,978	1,654,994	-	1,654,994
Fundraising	250,738	-	250,738	33,601	-	33,601
Total supporting services	1,672,716	-	1,672,716	1,688,595	-	1,688,595
Total expenses	8,847,257	-	8,847,257	8,608,707	-	8,608,707
Changes in net assets	(391,326)	3,126,557	2,735,231	(876,256)	(693,005)	(1,569,261)
Net assets (deficit) at beginning of year	(1,066,215)	2,507,682	1,441,467	(189,959)	3,200,687	3,010,728
NET ASSETS (DEFICIT) AT END OF YEAR	**$ (1,457,541)**	**$ 5,634,239**	**$ 4,176,698**	**$ (1,066,215)**	**$ 2,507,682**	**$ 1,441,467**

See accompanying notes to financial statements.

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and benefits	$ 2,434,005	$ 614,195	$ 100,680	$ 714,875	$ 3,148,880
Consultants	2,027,140	263,721	13,813	277,534	2,304,674
Meetings and conferences	271,594	12,122	111,942	124,064	395,658
Travel	155,964	39,730	12,438	52,168	208,132
Office expenses	381,855	438,108	8,317	446,425	828,280
Communications	72,757	50,753	3,548	54,301	127,058
Partner expenses	187,215	-	-	-	187,215
Subgrants	1,644,011	-	-	-	1,644,011
Bad debt	-	3,349	-	3,349	3,349
TOTAL	**$ 7,174,541**	**$ 1,421,978**	**$ 250,738**	**$ 1,672,716**	**$ 8,847,257**

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and benefits	$ 2,524,442	$ 909,850	$ 24,578	$ 934,428	$ 3,458,870
Consultants	2,322,433	152,920	-	152,920	2,475,353
Meetings and conferences	174,491	32,627	-	32,627	207,118
Travel	153,890	84,969	7,784	92,753	246,643
Office expenses	110,257	425,111	154	425,265	535,522
Communications	13,920	24,517	1,085	25,602	39,522
Partner expenses	20,000	-	-	-	20,000
Subgrants	1,600,679	-	-	-	1,600,679
Bad debt	-	25,000	-	25,000	25,000
TOTAL	**$ 6,920,112**	**$ 1,654,994**	**$ 33,601**	**$ 1,688,595**	**$ 8,608,707**

See accompanying notes to combined financial statements.

FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 2,735,231	$ (1,569,261)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	103,921	99,576
Unrealized (gain) loss on investments	(38)	152
Change in discount on grants receivables	67,140	(14,958)
Change in allowance for doubtful accounts	119,579	25,000
Donated stock	(2,632)	-
(Increase) decrease in:		
Grants and contracts receivable	(2,968,523)	1,272,624
Other receivables	(2,189)	33,515
Prepaid expenses and other assets	16,451	(2,635)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(576,545)	(11,180)
Refundable contract advance	25,609	(40,706)
Deferred rent liability	160,023	3,945
Net cash used by operating activities	(321,973)	(203,928)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(195)
Net cash used by investing activities	-	(195)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	1,087,000	775,000
Payments on line of credit	(1,200,000)	(1,200,000)
Principal payments on capital lease obligation	(14,943)	(14,796)
Net cash used by financing activities	(127,943)	(439,796)
Net decrease in cash and cash equivalents	(449,916)	(643,919)
Cash and cash equivalents at beginning of year	884,937	1,528,856
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 435,021**	**$ 884,937**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 23,576**	**$ 29,185**

See accompanying notes to combined financial statements.

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 2018 and 2017, although the programmatic activities continue to operate as a program of FTA (during years ended December 31, 2018 and 2017, the Group did not have any revenue). During years ended December 31, 2018 and 2017, expenses totaled $368 and $796, respectively. As of December 31, 2018 and 2017, the Group owed FTA $8,274 and $8,274, 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 September 16, 2019.

In connection with its *Green Infrastructure for Water Security* (GIWS) program, during 2018 FTA established a representative office (registered as a branch office of a U.S. non-governmental organization) in Peru. The purpose of the program is to scale up investments in natural infrastructure in Peru to safeguard water supplies and increase climate resilience.

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 presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended December 31, 2018 and applied retrospectively.

For the years ended December 31, 2018 and 2017, the financial statements have been combined 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.

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

Investments -

Investments are presented in the accompanying financial statements at fair value. Realized and unrealized gains and losses are included in investment income (net of investment expenses paid to external investment advisors, of which there were none in 2018 and 2017) in the accompanying Combined Statements of Activities and Changes in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Association's policy is to liquidate all gifts of investments as soon as possible after the gift.

Grants, contracts, and other receivables -

Grants, contracts and other receivable are recorded at their net realizable value, which approximates fair value. Amounts 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 and contracts revenue. Conditional promises to give are not included as support until the conditions are substantially met.

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 donor.

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 -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets (Deficit) Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets (deficit) without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions. 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 the years ended December 31, 2018 and 2017, amounts were not drawn from the designated funds for use in operations. As of December 31, 2018 and 2017, the balance of all Board designated funds aggregated $640,787 and $640,787, respectively.

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

Net asset classification (continued) -

- **Net Assets With Donor Restrictions -** Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Combined Statements of Activities and Changes in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Income taxes -

FTA and the Group are both exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Beginning January 1, 2018, both entities are subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the year ended December 31, 2018 was deemed immaterial. Neither entity is deemed to be a private foundation.

Uncertain tax positions -

For the years ended December 31, 2018 and 2017, 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 -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as "without donor restrictions" 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 net assets with donor restrictions in the accompanying combined financial statements. Grant funding received in advance of incurring the related expenses is recorded as "net assets with donor restrictions".

The Association receives awards under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such awards are recorded as revenue "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Grant funding received under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs in advance of incurring the related expenses is recorded as refundable advances.

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

Reclassification -

Certain amounts in the prior year's combined financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes.

Net assets (deficit) previously classified as of December 31, 2017 as unrestricted net assets (deficit) in the amount of $(1,066,214) are now classified as "net assets (deficit) without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of $2,507,682 are now classified as "net assets with donor restrictions".

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses directly attributed to a specific functional area of The Association are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis. Occupancy and related expenses are allocated functionally as deemed reasonable.

Foreign currency translation -

The U. S. Dollar is the functional currency for Association's worldwide operations. Transactions in currencies other than U.S. Dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Assets and liabilities denominated in currencies other than U.S. Dollars are translated into dollars at the exchange rate in effect at the date of the Combined Statements of Financial Position.

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.

Fair value measurement -

The Association adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements.

The Association accounts for a portion of its financial instruments at fair value or considers fair value in their measurement.

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

Going concern -

During the year ended December 31, 2018, the Association applied FASB ASU 2014-15, *Presentation of Financial Statements - Going Concern* and evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an ability to continue as a going concern within one year after the date the financial statements are issued.

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The Association has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Association has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Combined Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Association plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments are presented in the combined financial statements at fair value.

2. INVESTMENTS (Continued)

Investments are comprised of the following at December 31, 2018 and 2017:

	2018	2017
Equities	**$ 3,759**	**$ 1,089**

Included in Investment income (loss) on the Combined Statements of Activities and Changes in Net Assets are the following:

	2018	2017
Interest and dividends	$ 2,609	$ -
Unrealized gain (loss) on investments	38	(152)
TOTAL INVESTMENT INCOME (LOSS)	**$ 2,647**	**$ (152)**

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.

Following is a description of the investments held by the Association as of December 31, 2018 and 2017:

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.

3. GRANTS AND CONTRACTS RECEIVABLE (Continued)

Grants and contracts receivable are due to be collected as follows:

	2018	2017
Less than one year	$ 4,473,824	$ 2,484,204
One to five years	1,823,765	844,862
	6,297,589	3,329,066
Less: Allowance for doubtful accounts	(144,579)	(25,000)
Less: Discount to present value	(122,042)	(54,902)
	$ 6,030,968	**$ 3,249,164**

4. FIXED ASSETS

Fixed assets at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Furniture and equipment	$ 98,201	$ 98,201
Computer hardware and software	439,074	439,074
Leasehold improvements	13,605	13,605
	550,880	550,880
Less: Accumulated depreciation and amortization	(521,714)	(417,793)
	$ 29,166	**$ 133,087**

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, 2018 and 2017, the net basis of the leased asset was $29,021 and $41,050, respectively. Amortization of assets held under capital leases is included with depreciation and amortization expense.

Future minimum lease payments at December 31, 2018 are as follows:

Year Ending December 31, 2019	$ 2,508
Less: Interest	(3)
	2,505
Less: Current portion	(2,505)
NONCURRENT PORTION	**$ -**

6. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018 and 2017, net assets with donor restrictions consisted of the following:

	2018	2017
Forest Policy, Trade and Finance	$ 3,811,802	$ 473,818
Public-Private Finance	223,621	293,914
Ecosystem Marketplace	225,959	46,601
Biodiversity	136,118	254,890
Water and Marine	588,832	78,653
Communities	633,556	1,345,440
Time Restricted	14,351	14,366
	$ 5,634,239	**$ 2,507,682**

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.

	2018	2017
Forest Policy, Trade and Finance	$ 1,571,065	$ 2,512,396
Public-Private Finance	117,308	831,868
Ecosystem Marketplace	560,867	710,424
Biodiversity	123,732	279,345
Water and Marine	123,695	478,349
Communities	414,406	2,345,509
Passage of Time	15	23,066
	$ 2,911,088	**$ 7,180,957**

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

7. LINE OF CREDIT

On December 31, 2006, the Association established a line of credit with the Bank of Georgetown (subsequently with United Bank). The borrowing limit is $1,000,000, with an annual interest rate of prime plus 1.00%, and a minimum rate of 4.50% (actual rate of 6.25% and 5.50% as of December 31, 2018 and 2017, 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. Included in the agreement is a covenant stipulating that the Association must maintain “a minimum Tangible Net Worth of $2,500,000 as of the end of each calendar quarter”. As of December 31, 2018, the Association is not in compliance with this covenant.

As of December 31, 2018 and 2017, the principal balance due under the line of credit aggregated $312,000 and $425,000, respectively.

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, 2018 and 2017, contributions totaled $154,742 and $195,444, respectively.

9. LEASE COMMITMENTS

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

On May 31, 2017, the lease was amended and extended through July 31, 2028, with an option to terminate after the first five years. The lease agreement includes an annual escalation of 2.75% per year, plus a proportionate share of taxes and operating expenses. The agreement also provides the Association with six-months of free rent (during 2018).

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, 2018 and 2017, the deferred rent liability aggregated $202,688 and $42,665, respectively.

During 2018, the Association entered into a lease agreement for office space in Lima, Peru. At the commencement of the lease, the Association was required to pay $18,172, representing approximately two months of advance rent ($9,086) and a security deposit ($9,086). The lease is currently set to expire on December 5, 2022.

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

Year Ended December 31,	
2019	$ 328,337
2020	337,829
2021	346,378
2022	354,570
2023	314,476
Thereafter	1,556,556
	$ 3,238,146

Rent expense is included in the accompanying Combined Statements of Functional Expenses in "Office expenses". During the years ended December 31, 2018 and 2017, rent expense totaled $360,668 and $278,063, respectively.

10. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 68% of the Association's contributions, grants and contracts revenue during the year ended December 31 2018 (and 61% of grants and contracts receivable as of December 31, 2018) was under awards received from two donors (USAID and DFID).

Approximately 43% of the Association's grants and contracts revenue during the year ended December 31, 2017 (and 42% of grants and contracts receivable as of December 31, 2017) was under awards received from two donors (USAID and NORAD).

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 assistance from various agencies of the United States Government, which 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 awards is based upon the allowance of direct and indirect 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 2018. 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 December 6, 2017, FTA received a $15,000,000 award (in the form of a cooperative agreement) from the United States Agency for International Development (USAID), local Peru mission. The purpose of the award is to fund FTA's *Green Infrastructure for Water Security* (GIWS) program, for a five-year period, ending on December 5, 2022.

On August 6, 2018, FTA received notification of a $12,500,000 modification to its GIWS award. The period of performance of the GIWS award was not amended in connection with this grant modification.

The total award (aggregating $27,500,000) is obligated on a periodic basis, and as of December 31, 2018, FTA has received obligations from USAID totaling $6,637,694; as of December 31, 2018, FTA has spent $3,334,100 of the total obligations to date. The total unliquidated obligation of $3,303,594 as well as the remaining unliquidated balance of the award totaling $24,165,900 as of December 31, 2018 has not been recorded as revenue (or 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 years the conditions are met.

13. DEFICIT POSITION AND FUTURE FUNDING

As of December 31, 2018 and 2017, the Association maintained a total net deficit (without donor restrictions) position of $1,457,541 and $1,066,215, respectively. Additionally, during the years ended December 31, 2018 and 2017, the Association experienced negative cash flows from operations.

Management has evaluated the significance of these conditions in relation to the Association's ability to meet its obligations. In the absence of mitigating factors, these negative cash flows and net deficits (without donor restrictions) would raise concerns about the Association's ability to continue as a going concern. However, the Association has received significant grant awards that mitigate this concern although there needs to be additional success in securing grants without donor restrictions to address the accumulated net deficit.

Further, management's position (and plans) include:

- The Association has secured the total of over $34 million of multi-year commitments and will launch a Capital Campaign (without donor restrictions) to fundraise the total of $7.5 million between 2019 and 2021. The Association is confident that the Capital Campaign will be successful, and the plan is to use these resources to eliminate the deficit and build an operating reserve.

- As of the date of this report, the Association's 2019 annual budget ($13.5 million) is 98% financed by secured resources; and its 2020 annual estimated budget is 70% financed by secured resources. To alleviate cash needs, the Association has the ability to draw cash up to $1,000,000 under its line of credit if needed.

Accordingly, the financial statements have been prepared assuming that the Association will continue as a going concern.

14. CONCENTRATION OF RISK

As discussed in Note 13, management has evaluated the significance of the conditions in relation to the Association's ability to meet its obligations and has developed plans that intend to alleviate the conditions that raised substantial doubt about the Association's ability to continue as a going concern. Considering the level of grant commitments described in the preceding footnote, management does not expect continued net deficits or negative cash flows over the next twelve month period. However, should those conditions occur, the consequences would be that the Association will need to to wind-down its operations and settle all unspent obligations with its major donors. Additionally, any outstanding obligations with its financial institution (line of credit borrowings) will need to be repaid.

15. SUBSEQUENT EVENTS

In preparing these combined financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 16, 2019, the date the combined financial statements were issued.