

CONSOLIDATED FINANCIAL STATEMENTS

FOREST TRENDS ASSOCIATION

THE KATOOMBA GROUP

**FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022**

**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.

Opinion

We have audited the accompanying consolidated financial statements of Forest Trends Association and The Katoomba Group (together, the Association), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association as of December 31, 2023 and 2022, and the consolidated changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2024 on our consideration of Forest Trends 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 that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forest Trends Association's internal control over financial reporting and compliance.



May 23, 2024

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023 AND 2022**

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,667,062	\$ 3,054,795
Grants and contributions receivable, net of allowance	2,691,558	2,610,947
Other receivables	36,534	11,780
Prepaid expenses and other assets	<u>18,472</u>	<u>18,178</u>
Total current assets	<u>6,413,626</u>	<u>5,695,700</u>
FIXED ASSETS		
Fixed assets, net	<u>28,938</u>	<u>48,229</u>
NONCURRENT ASSETS		
Grants and contributions receivable, net of discount	2,244,445	1,725,692
Deposits	58,614	44,528
Right-of-use assets, net	<u>2,622,345</u>	<u>2,768,341</u>
Total noncurrent assets	<u>4,925,404</u>	<u>4,538,561</u>
TOTAL ASSETS	<u>\$ 11,367,968</u>	<u>\$ 10,282,490</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 835,792	\$ 894,808
Refundable advances	141,637	109,916
Loan payable	3,956	3,485
Operating lease liabilities	<u>96,428</u>	<u>103,867</u>
Total current liabilities	<u>1,077,813</u>	<u>1,112,076</u>
NONCURRENT LIABILITIES		
Loan payable, net of current portion	133,697	137,788
Operating lease liabilities, net	<u>2,856,402</u>	<u>2,879,852</u>
Total noncurrent liabilities	<u>2,990,099</u>	<u>3,017,640</u>
Total liabilities	<u>4,067,912</u>	<u>4,129,716</u>
NET ASSETS		
Without donor restrictions	665,103	44,734
With donor restrictions	<u>6,634,953</u>	<u>6,108,040</u>
Total net assets	<u>7,300,056</u>	<u>6,152,774</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,367,968</u>	<u>\$ 10,282,490</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Grants and contributions	\$ 6,317,775	\$ 5,923,337	\$ 12,241,112	\$ 7,313,691	\$ 2,570,660	\$ 9,884,351
In-kind contributions	190,295	-	190,295	66,022	-	66,022
Other	79,153	28,950	108,103	8,427	-	8,427
Net assets released from donor restrictions	5,425,374	(5,425,374)	-	4,955,818	(4,955,818)	-
Total support and revenue	12,012,597	526,913	12,539,510	12,343,958	(2,385,158)	9,958,800
EXPENSES						
Program Services	9,084,420	-	9,084,420	9,867,825	-	9,867,825
Supporting Services:						
Management and General	2,242,384	-	2,242,384	2,301,472	-	2,301,472
Fundraising	65,424	-	65,424	46,107	-	46,107
Total supporting services	2,307,808	-	2,307,808	2,347,579	-	2,347,579
Total expenses	11,392,228	-	11,392,228	12,215,404	-	12,215,404
Changes in net assets	620,369	526,913	1,147,282	128,554	(2,385,158)	(2,256,604)
Net assets at beginning of year	44,734	6,108,040	6,152,774	(83,820)	8,493,198	8,409,378
NET ASSETS AT END OF YEAR	\$ 665,103	\$ 6,634,953	\$ 7,300,056	\$ 44,734	\$ 6,108,040	\$ 6,152,774

See accompanying notes to consolidated financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries and benefits	\$ 3,814,612	\$ 987,450	\$ 58,367	\$ 1,045,817	\$ 4,860,429
Consultants	3,733,835	571,982	-	571,982	4,305,817
Subgrants	791,227	-	-	-	791,227
Office expenses	226,039	371,668	128	371,796	597,835
Communications	117,598	159,185	-	159,185	276,783
Travel	213,289	70,627	6,929	77,556	290,845
Meetings and conferences	187,820	81,472	-	81,472	269,292
TOTAL	<u>\$ 9,084,420</u>	<u>\$ 2,242,384</u>	<u>\$ 65,424</u>	<u>\$ 2,307,808</u>	<u>\$ 11,392,228</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries and benefits	\$ 3,930,568	\$ 1,240,446	\$ 46,037	\$ 1,286,483	\$ 5,217,051
Consultants	3,523,764	444,094	-	444,094	3,967,858
Subgrants	1,680,591	-	-	-	1,680,591
Office expenses	305,580	334,061	70	334,131	639,711
Communications	105,052	163,199	-	163,199	268,251
Travel	147,110	70,315	-	70,315	217,425
Meetings and conferences	175,160	49,357	-	49,357	224,517
TOTAL	<u>\$ 9,867,825</u>	<u>\$ 2,301,472</u>	<u>\$ 46,107</u>	<u>\$ 2,347,579</u>	<u>\$ 12,215,404</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,147,282	\$ (2,256,604)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	19,291	9,646
Amortization of right-of-use assets	145,996	213,588
Change in discount on grants and contracts receivable	1,039	(128,895)
Change in allowance for doubtful accounts	(3,829)	(21,313)
Receipt of securities	(21,523)	(14,716)
Proceeds from sale of contributed securities	21,538	14,604
(Gain) loss on sale of contributed securities	(15)	112
(Increase) decrease in:		
Grants and contributions receivable	(596,574)	2,217,660
Other receivables	(24,754)	9,705
Prepaid expenses and other assets	(294)	43,343
Deposits	(14,086)	(6,000)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(59,016)	212,149
Refundable advances	31,721	(351,890)
Operating lease liabilities	<u>(30,889)</u>	<u>(221,388)</u>
Net cash provided (used) by operating activities	<u>615,887</u>	<u>(279,999)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	<u>-</u>	<u>(33,689)</u>
Net cash used by investing activities	<u>-</u>	<u>(33,689)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on loan	<u>(3,620)</u>	<u>(4,058)</u>
Net cash used by financing activities	<u>(3,620)</u>	<u>(4,058)</u>
Net increase (decrease) in cash and cash equivalents	612,267	(317,746)
Cash and cash equivalents at beginning of year	<u>3,054,795</u>	<u>3,372,541</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,667,062</u>	<u>\$ 3,054,795</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 16,706</u>	<u>\$ 4,603</u>
Right-of-Use Assets	<u>\$ 106,551</u>	<u>\$ 2,981,930</u>
Operating Lease Liabilities for Right-of-Use Assets	<u>\$ 106,551</u>	<u>\$ 3,205,107</u>

See accompanying notes to consolidated financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Forest Trends Association (FTA) is a not-for-profit organization founded in 1996, and located in the District of Columbia. 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 2023 and 2022 (during years ended December 31, 2023 and 2022, the Group did not have any revenue or expenses), although the programmatic activities continue to operate as a program of FTA. Also, as of December 31, 2023 and 2022, there were no amounts due to or from either entity. 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 the date of our audit report.

In connection with its *New Infrastructure for Water Security* (NIWS) 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.

Principles of consolidation -

The accompanying consolidated financial statements are presented in accordance with the criterion established by FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. Under FASB ASC 958-810, consolidation is required if a separate not-for-profit organization has control (i.e., major voting interest) and significant economic interest in that other organization. The accompanying consolidated financial statements include the operations of Forest Trends Association and The Katoomba Group (together, the Association). All significant inter-company accounts and transactions have been eliminated in consolidation.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) related to nonprofit entities. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets 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. There are no Board Designated Net Assets as of December 31, 2023 and 2022.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

Basis of presentation (continued) -

- **Net Assets With Donor Restrictions (continued)** - Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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.

Cash and cash equivalents -

For consolidated 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.

The Association maintains cash on hand and in banks in foreign bank accounts totaling approximately \$100,000 and \$29,000 as of December 31, 2023 and 2022, respectively. Funds held in local bank accounts are uninsured. Management believes the risk in these situations to be minimal.

Receivables -

All receivables 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 management's estimated incremental borrowing rate applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contributions 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 \$5,000 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. Computer 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 lesser of the useful life of the asset or the remaining life term of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

FTA and the Group are exempt from Federal income tax under Section 501(a) of the Internal Revenue Code ("IRC"), as an organization described in IRC Section 501(c)(3). Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements. Neither entity is deemed to be a private foundation.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

Revenue recognition -

The majority of the Association's revenue is received through awards from the U.S. and foreign governments, international organizations, individuals, and foundations. Contributions and grants are recognized in the appropriate category of net assets in the period received. The Association performs an analysis of the individual award to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal.

For awards qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Awards qualifying as contributions that are unconditional that have 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 consolidated financial statements.

Awards qualifying as conditional contributions contain a right of return or right of release from obligation provision and a defined barrier (or barriers), and the entity has limited discretion over how funds transferred should be spent. Accordingly, revenue is recognized when the condition or conditions are satisfied (when the related barrier has been overcome; generally, when qualifying expenditures are incurred); these transactions are nonreciprocal and classified as conditional, and are recognized as contributions when the revenue becomes unconditional. The Association considers all awards from governments to be conditional assistance, and accordingly have been recognized in the accompanying consolidated financial statements as revenue (without donor restrictions) at such time when the conditions have been met. Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. As of December 31, 2023 and 2022, the Association has recorded \$141,637 and \$109,916, respectively, of refundable advances under conditional assistance awards.

As of December 31, 2023 and 2022, the Association has received conditional commitments for support which have not been recorded in the accompanying consolidated financial statements (as revenue and receivables), as they did not meet the criteria for revenue recognition. The total value of all conditional contributions received (and not recorded) aggregated \$24,844,231 and \$9,190,391, respectively. The Association believes it will meet all conditions related to these contributions.

In-kind contributions -

The Association receives contributions of professional services (at no cost) in furtherance of its program activities; these donated services are considered to be contributed nonfinancial assets and are recorded at their fair value as of the date of the gift. These contributions are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Association. None of the contributed nonfinancial assets were restricted by donors and none of the donated goods were monetized through sale. The Association recognized \$190,295 and \$66,022 of donated professional services during the years ended December 31, 2023 and 2022, respectively.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes 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 actual time and effort or other reasonable basis.

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 Consolidated Statements of Financial Position.

Use of estimates -

The preparation of the consolidated 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.

Reclassification -

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

2. GRANTS AND CONTRIBUTIONS RECEIVABLE

The Association has received commitments for support of which \$5,170,418 and \$4,573,844 has yet to be received as of December 31, 2023 and 2022, respectively. Grants and contributions 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 2.75%.

Management is of the opinion that all receivables are collectible.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

2. GRANTS AND CONTRIBUTIONS RECEIVABLE (Continued)

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

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 2,809,003	\$ 2,732,221
One to five years	<u>2,361,415</u>	<u>1,841,623</u>
Subtotal	5,170,418	4,573,844
Less: Allowance for doubtful accounts (current)	(117,445)	(121,274)
Less: Discount to present value (noncurrent)	<u>(116,970)</u>	<u>(115,931)</u>
GRANTS AND CONTRIBUTIONS RECEIVABLE, NET OF ALLOWANCE AND DISCOUNT	<u>\$ 4,936,003</u>	<u>\$ 4,336,639</u>

3. FIXED ASSETS

Fixed assets consisted of the following:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 9,500	\$ 9,500
Computer hardware and software	<u>331,395</u>	<u>331,395</u>
Subtotal	340,895	340,895
Less: Accumulated depreciation and amortization	<u>(311,957)</u>	<u>(292,666)</u>
NET FIXED ASSETS	<u>\$ 28,938</u>	<u>\$ 48,229</u>

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2023</u>	<u>2022</u>
Forest Policy, Trade and Finance	\$ 2,057,017	\$ 3,369,702
Ecosystem Marketplace	393,486	1,001,329
Water and Marine	89,835	344,369
Communities	2,481,274	1,289,304
Strategic Outreach/Communications	14,734	-
Time Restricted	<u>1,598,607</u>	<u>103,336</u>
NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 6,634,953</u>	<u>\$ 6,108,040</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

4. NET ASSETS WITH DONOR RESTRICTIONS (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.

	2023	2022
Forest Policy, Trade and Finance	\$ 1,854,021	\$ 1,967,557
Public-Private Finance	-	18,793
Ecosystem Marketplace	951,740	1,206,506
Water and Marine	261,712	279,279
Communities	1,524,299	1,321,886
Cumari	-	58,733
Strategic Outreach/Communications	5,266	-
Passage of Time	828,336	103,064
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 5,425,374	\$ 4,955,818

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

5. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Consolidated Statements of Financial Position date comprise the following:

	2023	2022
Cash and cash equivalents	\$ 3,667,062	\$ 3,054,795
Grants and contributions receivable	4,936,003	4,336,639
Other receivables	36,534	11,780
Subtotal	8,639,599	7,403,214
Less: Donor restricted funds	(5,036,346)	(6,004,704)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR DISBURSEMENTS WITHIN ONE YEAR	\$ 3,603,253	\$ 1,398,510

The Association has a policy to structure its financial assets to be available and liquid as its obligations become due. In addition, the Association has board designated net assets without donor restrictions that were established by the Board of Directors that may be drawn upon in the event of financial distress or an immediate liquidity need. In addition, the Association has a line of credit agreement (as further discussed in Note 6) which allows for additional access to resources.

6. LINE OF CREDIT

The Association maintains a line of credit 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 7.25% (actual rate of 9.50% and 8.50% as of December 31, 2023 and 2022, respectively). Borrowings are secured by the Association's assets. The line of credit expires on October 1, 2024.

As of December 31, 2023 and 2022, there were no outstanding borrowings.

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7. LOAN PAYABLE

During June 2020, the Association received loan proceeds totaling \$150,000, under the Economic Injury Disaster Loan (EIDL) program administered by the Small Business Administration (SBA). The promissory note requires monthly payments of \$641, comprising both principal and interest payments, over the 30-year term of the promissory note, with a deferral of payments for the first twelve months. Interest will accrue at the rate of 2.75% per annum and will accrue only on funds actually advanced from the date of each advance. The balance as of December 31, 2023 and 2022, including principal and accrued interest, aggregated \$137,653 and \$141,273, respectively.

Following is an estimate of the expected principal payments due over future years:

Year Ended December 31,

2024	\$ 3,956
2025	4,058
2026	4,066
2027	4,180
2028	4,296
Thereafter	<u>117,097</u>
	<u>\$ 137,653</u>

8. RETIREMENT PLAN

The Association maintains a 401(k) plan covering all employees, and is effective on the date of hire. The Association's contributions equal 7% of each eligible employee's salary. During the years ended December 31, 2023 and 2022, contributions to the Plan totaled \$212,254 and \$224,546, respectively.

9. LEASE COMMITMENTS

The Association follows FASB ASC 842 for leases. The Association has elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and is applying this expedient to all relevant asset classes. The Association has also elected to use a risk-free rate as the lease discount rate for all leases as allowed under FASB ASC 842.

The Association entered into an operating lease agreement for its principal office space in Washington, D.C., 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 provided the Association with six-months of free rent (during 2018).

During 2019, the Association received \$330,240 of tenant improvements in connection with the terms of its lease.

During 2022, the Association entered into a second amendment to the original lease effective August 1, 2023 and expiring on January 1, 2034, with another six months of free rent and \$137,600 of additional tenant improvements.

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9. LEASE COMMITMENTS (Continued)

The amended base rent is \$302,720 per year, increasing by a factor of 2.75% per year, plus proportionate share of taxes and operating expenses.

In December 2022, the Association entered a new lease agreement for office space in Lima, Peru. The lease commenced on January 13, 2023 and will expire on January 12, 2026. On a monthly basis the Association is required to pay \$3,000, with no annual escalation. Additionally, the lease required a security deposit of \$6,000.

For the years ended December 31, 2023 and 2022, respectively, the total lease cost for both operating leases was \$334,454 and \$346,353, and is included in "Office expenses" in the accompanying Consolidated Statements of Functional Expenses. For the years ended December 31, 2023 and 2022, total cash paid under both operating leases was \$226,714 and \$354,378, respectively. As of December 31, 2023, the weighted-average remaining lease term is 8.79 years. The weighted average remaining rate for operating leases as of December 31, 2023 and 2022 was 2.75% and 2.78%, respectively.

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

Year Ended December 31,

	2024	\$ 177,069
	2025	350,609
	2026	326,261
	2027	332,150
	2028	341,284
	Thereafter	<u>1,885,560</u>
		3,412,933
Less: Imputed interest		<u>(460,103)</u>
		2,952,830
Less: Current portion		<u>(96,428)</u>
NONCURRENT PORTION		<u>\$ 2,856,402</u>

10. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2023, the Association was the beneficiary of donated professional services which allowed the Association to provide greater resources toward various programs (as discussed in Note 1).

The following donations have been included in revenue and expense for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Consultants	<u>\$ 190,295</u>	<u>\$ 66,022</u>

The aforementioned contributions have been recorded in the following categories in the accompanying Consolidated Statements of Functional Expenses:

	<u>2023</u>	<u>2022</u>
Program Services	\$ 139,900	\$ 9,600
Management and General	<u>50,395</u>	<u>56,422</u>
TOTAL	<u>\$ 190,295</u>	<u>\$ 66,022</u>

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11. CONCENTRATION OF REVENUE AND RECEIVABLES

Approximately 70% of the Association's revenue during the year ended December 31, 2023 was under awards received from three donors (USG and two private foundation). In addition, 52% of grants and contributions receivable as of December 31, 2023 was due from two donors (NORAD and a private foundation).

Approximately 58% of the Association's revenue during the year ended December 31, 2022 was under awards received from one donor (USG). In addition, 57% of grants and contributions receivable as of December 31, 2022 was due from 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.

12. 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 2023. 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.

13. 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 *New Infrastructure for Water Security (NIWS)* 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 NIWS award. The period of performance of the NIWS award was not amended in connection with this grant modification. On May 15, 2023, FTA received another modification for an additional \$24,681,653 for a four and half year period, ending December 5, 2027.

The total of the three awards (aggregating \$52,181,653) are obligated on a periodic basis. As of December 31, 2023, FTA has received obligations from USAID totaling \$33,348,386 and FTA has spent \$30,042,867 of the total obligations to date. The total unliquidated obligation (as of December 31, 2023) aggregating \$3,305,519, as well as the remaining unliquidated balance of the two awards totaling \$22,138,786, has not been recorded as revenue (or grants receivable) in the accompanying consolidated financial statements due to the conditional nature of the agreements as well as the reimbursable payment terms. Upon satisfactory completion of the conditions required under such agreements, FTA will recognize revenue in the years the conditions are met.

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14. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 23, 2024, the date the consolidated financial statements were issued.