

CONSOLIDATED FINANCIAL STATEMENTS

FOREST TRENDS ASSOCIATION

THE KATOOMBA GROUP

**FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

**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, 2022 and 2021, 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, 2022 and 2021, and the consolidated change 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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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 19, 2023 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 19, 2023

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021**

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,054,795	\$ 3,372,541
Grants and contracts receivable, net of allowance for doubtful accounts of \$121,274 in 2022 and \$142,587 in 2021	2,610,947	3,228,056
Other receivables	11,780	21,485
Prepaid expenses and other assets	<u>18,178</u>	<u>61,521</u>
Total current assets	<u>5,695,700</u>	<u>6,683,603</u>
FIXED ASSETS		
Fixed assets, net of accumulated depreciation and amortization of \$292,666 in 2022 and \$448,140 in 2021	<u>48,229</u>	<u>189,306</u>
NONCURRENT ASSETS		
Grants and contracts receivable, net of current portion and present value discount	1,725,692	3,176,035
Deposits	44,528	38,528
Right of use asset	<u>2,768,341</u>	<u>-</u>
Total noncurrent assets	<u>4,538,561</u>	<u>3,214,563</u>
TOTAL ASSETS	<u>\$ 10,282,490</u>	<u>\$ 10,087,472</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 894,808	\$ 682,660
Refundable advances	109,916	461,806
Deferred rent abatement and tenant improvements	-	75,310
Loan payable	3,485	2,937
Operating lease liability	<u>103,867</u>	<u>-</u>
Total current liabilities	<u>1,112,076</u>	<u>1,222,713</u>
NONCURRENT LIABILITIES		
Deferred rent abatement and tenant improvements	-	312,987
Loan payable, net of current portion	137,788	142,394
Operating lease liability, net of current portion	<u>2,879,852</u>	<u>-</u>
Total liabilities	<u>4,129,716</u>	<u>1,678,094</u>
NET ASSETS		
Without donor restrictions (deficit)	44,734	(83,820)
With donor restrictions	<u>6,108,040</u>	<u>8,493,198</u>
Total net assets	<u>6,152,774</u>	<u>8,409,378</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,282,490</u>	<u>\$ 10,087,472</u>

See accompanying notes to consolidated financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Grants and contracts	\$ 6,836,967	\$ 2,570,660	\$ 9,407,627	\$ 7,086,300	\$ 9,405,447	\$ 16,491,747
Contributions	476,724	-	476,724	524,041	-	524,041
In-kind contributions	66,022	-	66,022	-	-	-
Other	8,427	-	8,427	5,484	-	5,484
Net assets released from donor restrictions	4,955,818	(4,955,818)	-	4,225,047	(4,225,047)	-
Total support and revenue	<u>12,343,958</u>	<u>(2,385,158)</u>	<u>9,958,800</u>	<u>11,840,872</u>	<u>5,180,400</u>	<u>17,021,272</u>
EXPENSES						
Program Services	<u>9,867,825</u>	<u>-</u>	<u>9,867,825</u>	<u>9,648,133</u>	<u>-</u>	<u>9,648,133</u>
Supporting Services:						
Management and General	2,301,472	-	2,301,472	2,000,839	-	2,000,839
Fundraising	46,107	-	46,107	11,923	-	11,923
Total supporting services	<u>2,347,579</u>	<u>-</u>	<u>2,347,579</u>	<u>2,012,762</u>	<u>-</u>	<u>2,012,762</u>
Total expenses	<u>12,215,404</u>	<u>-</u>	<u>12,215,404</u>	<u>11,660,895</u>	<u>-</u>	<u>11,660,895</u>
Changes in net assets	128,554	(2,385,158)	(2,256,604)	179,977	5,180,400	5,360,377
Net assets (deficit) at beginning of year	(83,820)	8,493,198	8,409,378	(263,797)	3,312,798	3,049,001
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 44,734</u>	<u>\$ 6,108,040</u>	<u>\$ 6,152,774</u>	<u>\$ (83,820)</u>	<u>\$ 8,493,198</u>	<u>\$ 8,409,378</u>

See accompanying notes to consolidated financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

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

	<u>Supporting Services</u>			Total Supporting Services	Total Expenses
	Program Services	Management and General	Fundraising		
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**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Supporting Services</u>			Total Supporting Services	Total Expenses
	Program Services	Management and General	Fundraising		
Salaries and benefits	\$ 3,644,844	\$ 1,238,234	\$ 7,175	\$ 1,245,409	\$ 4,890,253
Consultants	3,533,815	234,196	-	234,196	3,768,011
Subgrants	1,887,344	-	-	-	1,887,344
Office expenses	335,587	370,173	2,389	372,562	708,149
Communications	142,299	118,505	1,954	120,459	262,758
Travel	43,992	38,893	405	39,298	83,290
Meetings and conferences	60,252	838	-	838	61,090
TOTAL	<u>\$ 9,648,133</u>	<u>\$ 2,000,839</u>	<u>\$ 11,923</u>	<u>\$ 2,012,762</u>	<u>\$ 11,660,895</u>

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (2,256,604)	\$ 5,360,377
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	9,646	66,048
Amortization of right of use asset	213,588	-
Change in discount on grants and contracts receivable	(128,895)	202,765
Change in allowance for doubtful accounts	(21,313)	19,093
Receipt of securities	(14,716)	(16,978)
Proceeds from sale of contributed securities	14,604	20,270
(Gain) loss on sale of contributed securities	112	3,292
(Increase) decrease in:		
Grants and contracts receivable	2,217,660	(3,767,724)
Other receivables	9,705	134,761
Prepaid expenses and other assets	43,343	(37,424)
Deposits	(6,000)	-
(Decrease) increase in:		
Accounts payable and accrued liabilities	212,149	(320,484)
Refundable advances	(351,890)	(296,419)
Deferred rent abatement and tenant improvements	-	(67,119)
Operating lease liability	<u>(221,388)</u>	<u>-</u>
Net cash (used) provided by operating activities	<u>(279,999)</u>	<u>1,300,458</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(33,689)	(24,185)
Proceeds from sale of investments	<u>-</u>	<u>24,767</u>
Net cash (used) provided by investing activities	<u>(33,689)</u>	<u>582</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	250,000
Payments on line of credit	-	(250,000)
Principal payments on loan	<u>(4,058)</u>	<u>(4,913)</u>
Net cash used by financing activities	<u>(4,058)</u>	<u>(4,913)</u>
Net (decrease) increase in cash and cash equivalents	(317,746)	1,296,127
Cash and cash equivalents at beginning of year	<u>3,372,541</u>	<u>2,076,414</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,054,795</u>	<u>\$ 3,372,541</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ 4,603</u>	<u>\$ 12,343</u>
Right of Use Asset	<u>\$ 2,981,930</u>	<u>\$ -</u>
Operating Lease Liability for Right of Use Asset	<u>\$ 3,205,107</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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 2022 and 2021 (during years ended December 31, 2022 and 2021, 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, 2022 and 2021, 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.

The accompanying consolidated 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 consolidated as they are under common control. All intercompany transactions have been eliminated in combination.

Basis of presentation -

The accompanying consolidated financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit 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, 2022 and 2021.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors 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 Consolidated Statements of Activities and Changes in Net Assets as net assets released from donor restrictions.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

Basis of presentation (continued) -

- **Net Assets With Donor Restrictions (continued)** - 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.

New accounting pronouncements adopted -

During the year ended December 31, 2022, the Association adopted ASU 2019-01, *Leases* (Topic 842), which changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. The Association applied the new standard using the modified retrospective approach and adopted the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. See Note for further details.

During the year ended December 31, 2022, the Association adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles in the United States (U.S. GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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.

Grants, contracts, and other receivables -

Grants, contracts and other 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 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.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

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 remaining life of the lease. Repairs and maintenance are expensed as incurred.

Income taxes -

FTA and the Group are both exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Neither entity is deemed to be a private foundation.

Uncertain tax positions -

For the years ended December 31, 2022 and 2021, 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 consolidated financial statements.

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, 2022 and 2021, the Association has recorded \$109,916 and \$461,806, respectively, of refundable advances under conditional assistance awards.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

Revenue recognition (continued) -

As of December 31, 2022 and 2021, 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 \$4,744,210 and \$8,198,085, respectively. The Association believes it will meet all conditions related to these contributions.

The recording of revenue classified as an exchange transaction follows the guidance set forth in ASU 2014-09, *Revenue from Contracts with Customers*. In such cases, the Association records revenue when the performance obligations are met. The revenue is recorded directly as net assets without donor restrictions and the transaction price is based on criteria set forth in the transaction agreement.

In-kind contributions -

In-kind contributions consist of donated professional fees. In-kind 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. The Association recognized \$66,022 of donated professional services during the year ended December 31, 2022.

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 estimated 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.

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

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.

New accounting pronouncement (not yet adopted) -

Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for the Association for the year ending December 31, 2023. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Association plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying consolidated financial statements.

2. GRANTS AND CONTRACTS RECEIVABLE

The Association has received commitments for support of which \$4,573,844 and \$6,791,504 has yet to be received as of December 31, 2022 and 2021, respectively.

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 2.75% in 2022 and 2021. The discount on those amounts are computed management's estimated incremental borrowing rate applicable to the years in which the promises 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:

	2022	2021
Less than one year	\$ 2,732,221	\$ 3,370,643
One to five years	1,841,623	3,420,861
	4,573,844	6,791,504
Less: Allowance for doubtful accounts	(121,274)	(142,587)
Less: Discount to present value (2.75%)	(115,931)	(244,826)
GRANTS AND CONTRACTS RECEIVABLE, NET OF ALLOWANCE AND DISCOUNT	\$ 4,336,639	\$ 6,404,091

**FOREST TRENDS ASSOCIATION
THE KATOOMBA GROUP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

3. FIXED ASSETS

Fixed assets at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 9,500	\$ 9,500
Computer hardware and software	331,395	297,706
Leasehold improvements	<u>-</u>	<u>330,240</u>
	340,895	637,446
Less: Accumulated depreciation and amortization	<u>(292,666)</u>	<u>(448,140)</u>
NET FIXED ASSETS	<u>\$ 48,229</u>	<u>\$ 189,306</u>

4. NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2022 and 2021, net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Forest Policy, Trade and Finance	\$ 3,369,702	\$ 5,120,377
Public-Private Finance	-	22,671
Ecosystem Marketplace	1,001,329	1,912,553
Water and Marine	344,369	623,649
Communities	1,289,304	613,052
Time Restricted	<u>103,336</u>	<u>200,896</u>
NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 6,108,040</u>	<u>\$ 8,493,198</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>2022</u>	<u>2021</u>
Forest Policy, Trade and Finance	\$ 1,967,557	\$ 1,993,787
Public-Private Finance	18,793	88,329
Ecosystem Marketplace	1,206,506	990,847
Water and Marine	279,279	243,401
Communities	1,321,886	898,735
Cumari	58,733	-
Other	-	6,748
Passage of Time	<u>103,064</u>	<u>3,200</u>
NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 4,955,818</u>	<u>\$ 4,225,047</u>

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

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5. LIQUIDITY AND AVAILABILITY

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

	2022	2021
Cash and cash equivalents	\$ 3,054,795	\$ 3,372,541
Grants and contracts receivable, net	4,336,639	6,404,091
Other receivables	11,780	21,485
Subtotal	7,403,214	9,798,117
Less: Donor restricted funds	(6,004,704)	(8,292,302)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR DISBURSEMENTS WITHIN ONE YEAR	\$ 1,398,510	\$ 1,505,815

The Association maintains a line of credit agreement which allows for additional available borrowings up to \$1,000,000.

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 8.50% and 4.50% as of December 31, 2022 and 2021, respectively). Borrowings are secured by the Association's assets. The line of credit expires on October 1, 2023.

As of December 31, 2022 and 2021, there were no outstanding borrowings.

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, 2022 and 2021, including principal and accrued interest, aggregated \$141,273 and \$145,331, respectively. Following is an estimate of the expected principal payments due over future years:

<u>Year Ended December 31,</u>	
2023	\$ 3,485
2024	3,582
2025	3,682
2026	3,785
2027	3,885
Thereafter	122,854
	\$ 141,273

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8. PENSION 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, 2022 and 2021, contributions to the plan totaled \$224,546 and \$202,308, 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 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. 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.

During the year ended December 31, 2022, the Association adopted ASU 2019-01, *Leases* (Topic 842), which changed the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Consolidated Statement of Financial Position and disclosure of key information about leasing arrangements. The Association applied the new standard using the modified retrospective approach and adopted the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The Association also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. The Association adopted the package of practical expedients to not perform any lease reclassification, did not re-evaluate embedded leases and did not reassess initial direct costs. As a result, the Association recorded a right-of-use asset in the amount of \$2,981,930, net of the landlord allowance of \$223,177. The Association recorded an operating lease liability in the amount of \$3,205,107 by calculating the present value using the discount rate of 2.75%.

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9. LEASE COMMITMENTS (Continued)

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

Year Ended December 31,

	\$ 183,151
2023	141,069
2024	314,609
2025	323,261
2026	332,150
2027	<u>2,226,844</u>
Thereafter	3,521,084
Less: imputed interest	<u>(537,365)</u>
Less: Current portion	<u>2,983,719</u> <u>(103,867)</u>
NONCURRENT PORTION	<u>\$ 2,879,852</u>

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 expired during December 2022.

Lease expense (for both leases) is included in the accompanying Consolidated Statements of Functional Expenses in "Office expenses". During the years ended December 31, 2022 and 2021, lease expense totaled \$346,353 and \$334,994, respectively.

10. IN-KIND CONTRIBUTIONS

During the year ended December 31, 2022, the Association was the beneficiary of donated professional services which allowed the Association to provide greater resources toward various programs. There were no donor-imposed restrictions associated with the in-kind contributions during the year ended December 31, 2022. The contributions were valued at their fair market value as of the date of the gift. The following donations have been included in revenue and expense for the year ended December 31, 2022:

Consultants	\$ <u>66,022</u>
TOTAL	<u>\$ 66,022</u>

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

Program Services	\$ 9,600
Management and General	<u>56,422</u>
TOTAL	<u>\$ 66,022</u>

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11. CONCENTRATION OF REVENUE AND RECEIVABLES

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

Approximately 62% of the Association's revenue during the year ended December 31, 2021 was under awards received from two donors (USAID and NORAD). In addition, 57% of grants and contracts receivable as of December 31, 2021 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 2022. 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, 2022, FTA has received obligations from USAID totaling \$27,255,964 and FTA has spent \$26,507,694 of the total obligations to date. The total unliquidated obligation (as of December 31, 2022) aggregating \$748,270, as well as the remaining unliquidated balance of the two awards totaling \$992,306, 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.

14. FGMC GRANT ACTIVITIES

The Association was awarded a FGMC Extension Grant Agreement for (2021-2022) by Pegasys in the amount of GBP 1,000,000 (equivalent to \$1,371,220 as of the date of grant). In 2022, the Association was awarded and additional GBP 84,790 (equivalent to \$104,115 as of the date of the grant).

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14. FGMC GRANT ACTIVITIES (Continued)

In 2022, the Association received payments totaling GBP 927,205. The grant is funding activities towards the Association's FGMC Program. During the year ended December 31, 2022, the total expenses incurred under this award amounted to \$1,402,276; total cash received was \$1,212,182, the remaining balance as of payments received and expenses incurred was \$190,094. Following is a summary of the grant activities:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue	\$ -	\$ 104,115	\$ 104,115
Exchange loss at year end evaluation	-	(73,059)	(73,059)
Revenue released from donor restricted to without donor restrictions	<u>886,336</u>	<u>(886,336)</u>	<u>-</u>
Total support and revenue	<u>886,336</u>	<u>(855,280)</u>	<u>31,056</u>
Expenses	<u>886,336</u>	<u>-</u>	<u>886,336</u>
Change in net assets	-	(855,280)	(855,280)
Net assets at beginning of year	<u>-</u>	<u>855,280</u>	<u>855,280</u>
NET ASSETS AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash received			\$ 1,212,182
Total expenditures recorded			<u>(1,402,276)</u>
BALANCE REMAINING			<u>\$ (190,094)</u>

15. SUBSEQUENT EVENTS

In preparing these consolidated financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 19, 2023, the date the consolidated financial statements were issued.

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.

During 2023, the aforementioned lease will be recorded in accordance with ASU 2019-01, *Leases* (Topic 842), as discussed in Note 9. Future minimum lease payments required under the operating lease agreement are as follows:

Year Ended December 31,

2023	\$ 36,000
2024	36,000
2025	36,000
2026	<u>3,000</u>
TOTAL	<u>\$ 111,000</u>