

Brazilian Biodiversity Fund - FUNBIO

Auditors' report on the demonstration of accountability of the
"Tropical Forest Conservation Act (TFCA)" Project

January 1st to December 31st, 2015

Summary

	Page
Auditors' report on the demonstration of accountability of the Tropical Forest Conservation Act (TFCA) Project	3
Demonstration of accountability	5
Explanatory notes on the demonstration of accountability of the Project for the period from January 1st to December 31st, 2015	7
Independent auditors' report on the internal control system of the Tropical Forest Conservation Act (TFCA) Project	11
Independent auditors' report on the standards, laws and regulations compliance of the Forest Conservation Act (TFCA) Project	13



Auditors' report on the demonstration of accountability of the "Tropical Forest Conservation Act (TFCA)" Project

Grant Thornton Auditores Independentes
Rua Voluntários da Pátria, 89 – 1st floor
Botafogo
Rio de Janeiro | RJ | Brazil

T +55 21 3529-9150
www.grantthornton.com.br

To:

Managers of the
Brazilian Biodiversity Fund – FUNBIO
Tropical Forest Conservation Act (TFCA) Project
Rio de Janeiro – RJ

We examined the demonstration of accountability of the Tropical Forest Conservation Act ("TFCA Agreement") Project, managed by the Brazilian Biodiversity Fund – FUNBIO ("Organization"), funded with resources from the "TFCA Agreement" of the Government of the United States of America, for the period from January 1st to December 31st, 2015, as well as the summary of the main accounting policies and other explanatory notes.

Management's responsibility for the demonstration of accountability

The Management of the "TFCA Agreement" is responsible for the reliable preparation and presentation of this demonstration of accountability, in accordance with the International Financial Reporting Standards, complemented by "TFCA Agreement" clauses and by internal controls that it has considered as necessary, so that this demonstration of accountability is free from relevant distortions, regardless whether it has been caused by fraud or error.

Independent auditors' responsibility

We are responsible for expressing an opinion on this demonstration of accountability, based on our audit. We performed our audit in accordance with International Standards on Auditing. These standards require compliance with ethical requirements by auditors and that the audit process is planned and conducted with the purpose of obtaining a reasonable level of assurance that the accountability is free from relevant distortions. An audit involves the execution of selected procedures for obtaining evidences regarding presented values and disclosures on the demonstration of accountability. The selected procedures depend on the Auditor's judgement, including the evaluation of risks posed by relevant distortions on the demonstration of accountability, caused by fraud or error.



In this risk assessment, the auditor has considered internal controls adopted by the Organization on the “TFCA Agreement”, relevant for the adequate preparation and presentation of the demonstration of accountability for planning audit procedures that are adequate at the given circumstances, but not with the purpose of expressing an opinion on the efficiency of the internal controls the Organization has on the “TFCA Agreement”. An audit includes, also, the assessment of the adequation of accounting policies employed and the reasonability of accounting estimates made by the management.

We consider that the audit evidence obtained is enough and adequate for the foundation of our audit opinion.

As described in the Explanatory Note no. 3, the demonstration of accountability of the “TFCA Agreement” was prepared on the fund accounting basis (cash), in compliance with the International Financial Reporting Standards, related to the fund accounting basis (cash). The fund accounting recognizes transactions and facts only when resources (including the equivalent to funds) are received or paid by the Organization, and not when these result, are earned or originated from rights or obligations, even if a movement of funds (cash) has not been made.

Opinion on the demonstration of accountability

In our opinion, the demonstration of accountability of resources of the Tropical Forest Conservation Act (“TFCA Agreement”) Project, managed by the Brazilian Biodiversity Fund – FUNBIO, is adequately presented, in all its relevant aspects, and with receivables and payables made during the period from January 1st to December 31st, 2015, in accordance with the “TFCA Agreement” and the accounting standard mentioned in the previous paragraph, and with the accounting policies described in the Explanatory Note No. 3.

Other issues

The demonstration of accountability of the Tropical Forest Conservation Act (“TFCA Agreement”) Project, related to the period from January 1st to December 31st, 2014, was examined by independent auditors, who issued a report without any qualifications, on April 17th, 2015

Rio de Janeiro, April 18th, 2016.

Ana Cristina Linhares Areosa
Accountant CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes
CRC SP-025.583/O-1 “S” – RJ

Demonstration of accountability

(Expressed in R\$)

	Budgeted 2011	Budgeted 2012	Budgeted 2013	Budgeted 2014	Budgeted 2015	2011	2012	2013	2014	2015	Accrued
Funds received											
Cooperation agreement	13,387,090	12,450,607	8,586,534	2,341,269	383,172	14,067,107	12,727,122	9,223,787	2,402,351	550,730	38,971,096
Interest received	669,355	997,676	1,000,000	942,849	303,695	654,238	1,030,168	1,175,131	1,196,355	688,051	4,743,943
Total revenue	13,448,283	13,448,283	9,586,534	3,284,118	686,867	14,721,345	13,757,290	10,398,918	3,598,705	1,238,781	43,715,039
Personnel expenses											
Contracted services (Adm. fee + Audit)	95,000	1,550,887	2,219,142	887,260	767,222	100,733	948,191	1,213,115	1,228,920	900,934	4,391,893
Total personnel expenses	95,000	1,550,887	2,219,142	887,260	767,222	100,733	948,191	1,213,115	1,228,920	900,934	4,391,893
Other expenses											
Expenditure – Public Notice 1*	-	11,107,474	9,157,581	3,551,539	2,158,669	-	7,455,185	5,056,916	4,734,914	2,343,915	19,590,930
Expenditure – Public Notice 2**	-	520,000	1,900,265	679,789	552,116	-	462,189	669,077	827,426	621,646	2,580,339
Expenditure – Public Notice 3***	-	1,056,000	1,535,007	734,621	67,863	-	823,665	831,198	924,116	108,259	2,687,238
Expenditure – Public Notice 4****	-	-	4,400,000	2,022,145	2,791,556	-	-	3,285,224	3,238,087	2,711,024	9,234,334
Travel and Accommodation – Committee	65,000	145,000	61,800	42,900	42,900	53,900	39,989	32,542	40,970	45,845	213,246
Travel and Accommodation – Technical Chamber	-	108,000	-	-	-	18,183	115,999	1,385	-	-	135,567
Travel and Accommodation – Project Monitoring	-	100,000	100,800	168,000	229,000	-	1,109	84,337	73,734	50,541	209,721
Seminars	-	-	981,920	-	500,000	-	-	365,195	8,131	391,924	765,250
Posting	-	8,001	3,000	1,500	1,650	-	2,461	878	1,357	716	5,412
Communication and Reports	-	-	-	-	150,000	-	-	-	-	156,208	156,208
Financial Expenses (Fees)	900	3,000	2,000	2,000	2,000	21,443	873	1,136	1,224	1,380	26,056
Other Expenses	-	1,000	1,000	1,500	1,650	-	344	-	401	95	840
Total of other expenses	65,900	13,048,475	18,143,373	7,203,994	6,497,404	93,526	8,901,813	10,327,888	9,850,360	6,431,554	35,605,140
TOTAL EXPENSES	160,900	14,599,362	20,362,515	8,091,254	7,264,626	194,259	9,850,004	11,541,002	11,079,280	7,332,488	39,997,033

The explanatory notes are an integral part to the project's demonstration of accountability.

Notes:

- (*) The purpose of this call was the selection of projects for protected areas, landscape management, qualification, species management and community projects in the 3 biomes, with total funds of R\$ 16.5 million.
- (**) The purpose of this call was the selection of projects for the strengthening of NGOs networks at Atlantic Forest and Caatinga, in order to strengthen the civil society, synergies and the exchange of information between environmental organizations of the aforementioned biomes, with total funds of R\$ 3.5 million.
- (***) The purpose of this call was the selection of qualification projects for the mobilization of financial resources, enabling new conservation and restoration actions in the 3 biomes, with total funds of R\$ 3.3 million.
- (****) The purpose of this call was the selection of projects for protected areas, landscape management, qualification, species management and community projects in the 3 biomes, with total funds of R\$ 7.5 million

Explanatory notes of the demonstration of accountability of the project for the period from January 1st to December 31st, 2015

1. Operational context of the Project's executor

The Brazilian Biodiversity Fund (“Funbio”) is a registered non-profit civil association. It started operating in 1996 as an innovative financial mechanism for the development of strategies that contribute to the implementation of the UN Convention on Biological Diversity (CDB) in Brazil. Throughout its 19-year existence, Funbio has been a strategic partner for the private sector, different state and federal authorities, and organized civil society. Thanks to these partnerships, it has been possible for the companies involved to make social investments, and reduce and mitigate their impacts, while also fulfilling their legal obligations. In the public sphere, they serve to consolidate conservation policies and enable environmental funding programs

In almost 20 years of existence, Funbio has already managed US\$ 579.3 million, supported 235 projects in 7 biomes, 170 institutions and 292 protected areas. The institution is part of the Latin American and Caribbean Network of Environmental Funds, with 38 organizations from 31 countries that, since 1999, have managed more than US\$ 2 billion in equity and extinguishable funds.

Funbio is also the first national agency to implement the Global Environment Fund (GEF), one of the most important funders of environmental projects in the world.

Funbio is structured into three main areas:

- National and International Donations - projects funded with resources originated from private donations and from bilateral and multilateral agreements.
- Legal Obligations - projects funded with resources originated from legal obligations, such as environmental compensation
- Special Projects - it works in the diagnosis of the financial environment and the design of mechanisms and tools that enable access to new sources.

Leading the governance of Funbio is the Deliberative Council (CD), which gathers 16 members of the academic, environmental and corporate sectors, and that is responsible for the definition of the strategy and general directions of organization. This Council meets three times a year for evaluating the strategic path and institutional management, establishing a general policy, defining goals and priorities, which are transformed into actions by its Executive Office. The Council approves annual operational plans, investment policies and projects to be developed. Its Council Members participate voluntarily, offering their experiences and knowledge. The Deliberative Council is arranged in commissions that deal with specific issues, such as the Executive, Project Techniques, Finances and Auditing and Assets Management Commissions. The Advisory Council (CC) is integrated by 34 former advisors and leaders that are invited to offer their technical advising.

2. Project Description

TFCA Agreement - Tropical Forest Conservation Act

The Tropical Forest Conservation Act (TFCA) is the result of a bilateral agreement between Brazil and the United States, with the purpose of replacing debts incurred by countries with the North American Government by investments in the conservation and sustainable use of forests. Throughout the world, more than 10 countries have already signed the agreement with the USA. Funbio is the Executive Office of the TFCA Account that receives resources and directs them to projects in remaining areas of the Atlantic Forest, Cerrado and Caatinga, which together cover approximately 50% of the country. The total amount of replaced debts reached US\$ 20.8 million.

The TFCA has launched five project calls since 2011, which resulted in the support to 82 projects inserted in the following lines: Protected Areas; Landscape Management; Qualification; Species Management; Community Projects; Network Strengthening; and Qualification for Financial Resources Mobilization.

The following activities were conducted in 2015:

- Continuation of the monitoring made by means of periodical technical and financial reports sent by projects;
- Completion of monitoring and execution of the 82 supported projects;
- Conduction of the 2nd Projects Seminar, in Brasilia, November 2015;
- Publication, release and distribution of the book "TFCA – Uma Experiência Brasileira";
- Completion and disclosure of the results report (2011/2014).

Throughout the year of 2015, the TFCA operative account received installments in the amount of R\$ 0.5 million (2014: R\$ 2.4 million) and performed expenditures that reached R\$ 6.4 million (2014: R\$ 9.9 million) with an available balance at the end of the period of R\$ 3.7 million (2014: R\$ 9.8 million). From this moment Funbio, along with MMA and other partners began the discussion on the preparation of proposals for using the remaining project resources, with an approximate remaining balance at the end of 2015 around R\$ 3.7 million.

3. Main accounting practices

Preparation basis and general information

The demonstration of accountability of the Tropical Forest Conservation Act ("TFCA Agreement") was prepared in accordance with the governmental auditing requirements issued by the Comptroller General of the United States of America. The accounting policies adopted by the management are defined below:

- **Fund Accountability Statement:** as FUNBIO uses its own financial and accounting management system in order to report the Project operations, the used accounts plan has the classification of accounting items. The demonstration of accountability of funds of the Tropical Forest Conservation Act ("TFCA Agreement"), managed by the Brazilian Biodiversity Fund - FUNBIO was prepared using a cash basis, which consists in the accounting of revenues only when effectively received and in the accounting of costs and expenses only at the moment of the actual payment in local currency.
- **Revenues:** Revenues are registered on the date which the resources are transferred by the Brazilian Government to FUNBIO and are made available to a FUNBIO's checking account.

- **Exchange Rate:** The Project's financial records are maintained in Reais, the actual currency in Brazil. On December 31st, 2015, the exchange rate of Real and the US Dollar was R\$ 3.94 : USD 1.00. The demonstration of accountability of resources of the Tropical Forest Conservation Act ("TFCA Agreement") was prepared in Reais.

-

4. Available funds

During the financial year of 2015, the remaining balances in bank accounts are comprised of and will be destined to as follows:

Description	Type	In R\$
Banco do Brasil - C/C 22206-2	Checking account	40,347
Banco do Brasil - C/Aplic CDB 22206-2	Automatic application	20,524
Banco do Brasil - C/Aplic RF 22206-2	Automatic application	3,657,168
Total cash and cash equivalents		3,718,039

During the financial year of 2015, earnings of financial applications amounted to R\$ 688,051.

The available amounts related to the project are maintained in a specific checking account (TFCA Account) and financial applications in investment funds and bank deposit certificate - CDBs, which have a liquidity shorter than 90 days, with an insignificant risk of failure reduction. Search applications are being comprised of CDBs remunerated at the CDI rate and other investments in investment funds maintained in a first class financial institution.

5. Resources Transfer – “TFCA Agreement”

FUNBIO received financial support by means of a Donation Agreement ("TFCA Agreement"), between the Government of the United States of America and Federative Republic of Brazil, dated August 12th, 2010, for the development of the TFCA Project - Tropical Forest Conservation Act.

Values of contributed resources, once received, were credited to the account no. 22206-2 (checking account and automatic application), and maintained at Banco do Brasil, supplied by resources from the Government of the United States of America forwarded through the Federative Republic of Brazil.

Up to December 31st, 2015, the Government of the United States of America provided financial resources reaching the total amount of R\$ 38,971,097 (thirty-eight million nine hundred seventy-one thousand and ninety-seven Reais). The contributions are registered in local currency (Reais), without any exchange rate variation impact on the Project's demonstration of accountability. During the financial year of 2015, a total amount of R\$ 550,731 (Five hundred fifty thousand seven hundred and thirty-one Reais) was contributed.

Below you find the statement of such contributions:

Date	Amount (in R\$)
Total 2011	14,067,107
Total 2012	12,727,122
Total 2013	9,223,787
Total 2014	2,402,350
Total contributions up to 12/31/2014	38,420,366
Contributions in February/2015	247,581
Contributions in August/2015	303,149
Total contributions in 2015	550,731
Total contributions up to 12/31/2015	38,971,097

6. Reconciliation of available funds

The reconciliation between the excess revenue and costs incurred with values available in bank accounts and respective financial applications on December 31st, 2015, is summarized below:

	Em R\$
Cash and cash equivalents composition :	
Operative Account	
Banco do Brasil - C/C 22206-2	R\$ 40,347
Banco do Brasil - C/Aplic CDB 22206-2	R\$ 20,524
Banco do Brasil - C/Aplic RF 22206-2	R\$ 3,657,168
Cash and cash equivalents on December 31st, 2015	R\$ 3,718,039
Accounting reconciliation adjustments (*)	(33)
Project's book balance	R\$ 3,718,006

(*) Amount related to expenses recognized by the project, but not paid up to 12/31/2015.

7. Counterpart Expenses Contributions

The “TFCA Agreement” does not provide a sharing of costs (counterpart) for the TFCA project to be supplied by the Brazilian Biodiversity Fund – FUNBIO.

8. Contingencies

The Project's Management, by means of its internal and external legal advisors, evaluated the probability of eventual contingencies that could occur in this Project. Up to December 31st, 2015, there were no lawsuits against FUNBIO or this Project.

* * *

Independent auditors' report on the internal control system of the Tropical Forest Conservation Act (TFCA) Project

Grant Thornton Auditores Independentes
Rua Voluntários da Pátria, 89 – 1st floor
Botafogo
Rio de Janeiro | RJ | Brasil

T +55 21 3529-9150
www.grantthornton.com.br

To:

Managers of the
Brazilian Biodiversity Fund - FUNBIO
Tropical Forest Conservation Act Project (TFCA)
Rio de Janeiro – RJ

This is a complementary report to our report on the demonstration of accountability of the Tropical Forest Conservation Act (TFCA) Project.

The management of the Brazilian Biodiversity Fund - FUNBIO, manager of the Tropical Forest Conservation Act (TFCA) Project, is responsible for establishing and maintaining an internal control system that is able to mitigate the risks posed by distortions of financial information and protecting the assets under the project's custody, including the constructed works and other acquired goods. In order to comply with this responsibility, judgments and estimates are required from the Management for assessing the expected benefits and costs related to the policies and procedures of the internal control system. The goals of an internal control system providing the management with a reasonable, though not absolute, assurance that the assets are protected against losses resulting from unauthorized uses or provisions, that transactions are performed in accordance with authorizations given by the management and within contractual terms, and are properly registered in order to allow the preparation of a reliable demonstration of accountability. Due to limitations that are inherent to any internal control system, errors or irregularities may occur and pass by undetected. Furthermore, projections of any structure evaluation of future periods are subject to risks in which procedures may become inadequate due to changes in the conditions, or that the efficiency of the policies' and procedures' design and operation may become impaired with time.

During the planning and development of our audit on the demonstration of accountability of the "TFCA Agreement", for the year ended on December 31st, 2015, we obtained an understanding of the current internal control system and we evaluated the risk for determining the audit procedures, with the purpose of expressing an opinion on the demonstration of the accountability of the "TFCA Agreement", and not for giving an opinion on the efficiency of the internal control system, being this the reason why we do not express it hereby.

Our audit of the Tropical Forest Conservation Act (TFCA) Project, for the year ended on December 31st, 2015, did not reveal significant deficiencies in the conception or operation of the internal control system, which, in our opinion, could negatively affect FUNBIO's capacity to record, process, summarize and present financial information in a coherent manner with the management's affirmations in the statements of funds received and expenditures made, as well as the statements of accumulated investments.

A significant deficiency is a condition in which the conception or operation of one or more elements in the internal control system does not reduce the risk to a relatively low level, where errors or irregularities can occur to values, facts which could be significant in regards to the Project's demonstration of accountability, and that could not be timely detected by FUNBIO's employees, during the normal course of tasks they were assigned with.

Our consideration of the internal control system does not expose, necessarily, all the issues of the system that could be considered as significant deficiencies, therefore, it must not necessarily expose all the conditions to be informed, which could be considered as significant deficiencies, in accordance with the previous definition. .

Rio de Janeiro, April 18th, 2016.



Ana Cristina Linhares Areosa
Accountant CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes
CRC SP-025.583/O-1 "S" – RJ

Independent auditors' report on the standards, laws and regulations compliance of the Forest Conservation Act (TFCA) Project

Grant Thornton Auditores Independentes
Rua Voluntários da Pátria, 89 – 1st floor
Botafogo
Rio de Janeiro | RJ | Brasil

T +55 21 3529-9150
www.grantthornton.com.br

To:

Managers of the
Brazilian Biodiversity Fund - FUNBIO
Tropical Forest Conservation Act Project (TFCA)
Rio de Janeiro – RJ

We performed an audit of the demonstration of accountability of the Tropical Forest Conservation Act Project ("TFCA Agreement"), managed by the Brazilian Biodiversity Fund - FUNBIO, financed with resources from the "TFCA Agreement" of the Government of the United States of America, resources which comprise the accountability report for the period from January 1st to December 31st, 2015 and we issued our respective report dated April 18th, 2016.

In connection with our audit, we examined the compliance with clauses and contractual articles established in the "TFCA Agreement", applicable on December 31st, 2015, and other agreements signed between parties, Laws and other existing legal provisions in the Brazilian legislation.

We performed our audit in accordance with International Standards on Auditing and requirements of the Government of the United States of America, formalized by the "United States Government Accountability Office", by means of the fourth chapter of "GAO's Yellow Book". These standards demand the planning and conduction of audits so that it is possible to obtain a reasonable level of assurance that FUNBIO has complied with relevant clauses of the "TFCA Agreement" other agreements signed between the parties, Laws and other existing legal provisions in the Brazilian and America legislations. The audit includes the examination based on proofs of the adequate evidence. We considered that the audit evidence obtained is enough and adequate to support our opinion.

In our opinion, in the financial year ended on December 31st, 2015, FUNBIO complied with, in all its substantial aspects, the contractual causes of the “TFCA Agreement” for the Tropical Forest Conservation Act Project and all other agreements signed between parties, Laws and other existing legal provisions in the Brazilian legislation.

Rio de Janeiro, April 18th, 2016.



Ana Cristina Linhares Areosa
Accountant CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes
CRC SP-025.583/O-1 “S” – RJ