

Fundo Brasileiro para Biodiversidade - FUNBIO

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Independent Auditor's Report on the financial statement of the Project "Tropical Forest Conservation Act" (TFCA)

January 01 to December 31, 2017

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(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail. See Note 18 to the financial statements.)

Independent Auditor's Report on the financial statement of the Project “Tropical Forest Conservation Act” (TFCA)

To the:
Management of
Fundo Brasileiro para Biodiversidade - FUNBIO
Project “Tropical Forest Conservation Act” (TFCA)
Rio de Janeiro – RJ

Opinion

We have audited the financial statement of the Project Tropical Forest Conservation Act (“TFCA Agreement”), managed by Fundo Brasileiro para Biodiversidade – FUNBIO (“Entity”), financed with funds from the “TCFA Agreement” of the United States of America Government for the period from January 1 to December 31, 2017, and a summary of the significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statement presents, in all material respects, the receipts and payments made during the period from January 01 to December 31, 2017, in accordance with the “TFCA Agreement” and accounting policies described in Note 3.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor's responsibilities for the audit of the financial statement” section of our report. We are independent of the Project in accordance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of matter**

As described in Note 3, the financial statement of “TCFA Agreement” was prepared on a cash basis of accounting, in conformity with the International Financial Reporting Standard on the cash basis of accounting. Under the cash basis of accounting, transactions and events are recognized only when funds (including fund equivalents) are received or used by the Entity to make payments, and not when they result, earn or originate from rights and obligations, even though no cash movement has occurred. Our opinion is not modified with respect to this matter.

Responsibility of Management and those charged with governance for the financial statement

FUNBIO’s Management is responsible for the preparation and fair presentation of this financial statement in accordance with the International Financial Reporting Standards as well as the provisions of the “TCFA Agreement” and for such internal control as it determined as necessary to enable the preparation of this financial statement free from material misstatement, whether due to fraud or error.

In preparing the financial statement, Management is responsible for assessing the Project, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in the preparation of the financial statement unless Management intends to discontinue the Project.

Those charged with the Project’s governance are responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statement

Our objectives are to obtain reasonable assurance about whether the financial statement taken as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor report expressing our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve override of internal control, collusion, forgery, intentional omissions or misrepresentations;



- Obtain an understanding of the internal controls 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue in operation. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue in operation;
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rio de Janeiro, April 26, 2018


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

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

Notes:

- (a) The purpose of this call was to select projects for protected areas, landscape management, training, species management and community projects in the 3 biomes, with initial funds of R\$16.5 million and after resolution of the TFCA Account Committee, there was an increase of R\$ 3.5 million, thus, totaling R\$ 20 million.
- (b) The purpose of this call was to select projects for the strengthening of NGO networks in the Atlantic forest and Caatinga in order to strengthen civil society, synergies and exchanges of information between environmental authorities of these biomes, with total funds of R\$ 3.5 million. Through December 31, 2017, approximately R\$2.5 million were used.
- (c) The purpose of this call was to select training projects for the mobilization of financial funds providing new conservation and restoration actions in the 3 biomes, with total funds of R\$ 3.3 million. Through December 31, 2017, approximately R\$2.5 million were used.
- (d) The purpose of this call was to select projects for protected areas, landscape management, training, species management and community projects in the 3 biomes, with total initial funds of R\$7.5 million. In 2014, an additional four projects were approved, totaling R\$1.9 million. Also, additional funds were approved for other four projects, which totaled R\$240 thousand. The total amount approved for the projects is R\$9.64 million, of which R\$9.3 million were used through December 31, 2017.
- (e) The purpose of this selection was to support projects for the conservation, maintenance and restoration of tropical forests in the Atlantic forest, Caatinga and Cerrado and their transition zones, with total funds of R\$2.05 million. Through December 31, 2017, approximately R\$1.7 million were used.
- (f) The purpose of this selection was to support projects for strengthening social and biodiversity productive chains in the Caatinga region of the São Francisco Basin, with total funds of R\$855.6 thousand.
- (g) Support to the 18th RedLAC Meetings, with total funds of R\$271.6 thousand.
- (h) The negative amounts included in 2016 for the Notices 1, 2, and 3 refer to returns of funds not used by the supported projects.
- (i) The budgeted amounts are forecast based on the cash flow and determined individually in each year. Therefore, they are not cumulative.

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Notes to the Project's financial statement for the period from January 01 to December 31, 2017

1. General information of the Projects' manager

Brazilian Biodiversity Fund – FUNBIO (“Entity”), whose headquarters are located at Rua Voluntários da Pátria, 286 – 5º andar, Botafogo, city of Rio de Janeiro, State of Rio de Janeiro, is a private, non-profit civil association, in operation since 1996.

Funbio is an innovative mechanism created to develop strategies that help support the implementation of the Convention on Biological Diversity (CBD) in Brazil. Over its 21 years, FUNBIO has served as a strategic partner of the private sector, different federal and state government bodies and civil society.

These partnerships help ensure the feasibility of the companies' environmental and social investments and the reduction and mitigation of their impacts as well as compliance with their legal obligations. At the government level, they are intended to consolidate conservation policies and make environmental financing programs feasible.

In just 21 years, FUNBIO managed US\$600 million, supported 282 projects in 7 biomes, 233 institutions and 311 protected areas totaling 67 million hectares (around three times the size of the State of São Paulo) and already empowered more than 1,300 partners. The source of the funds leveraged by FUNBIO, with a track record of approximately 70 donors, comes from international cooperation agreements, legal obligations and private national and international donations.

FUNBIO is the one and only agency in charge of implementing the Global Environment Facility (GEF) Trust Fund, one of the world's most important financing instruments for environmental projects which accredited FUNBIO for its implementation capacity.

Funds managed by FUNBIO in 2017 grew 20%, reaching a record R\$97 million (2016 – R\$81 million). These funds are used to execute the projects under its responsibility, and those used by the Entity to fulfill the purposes under its bylaws are segregated and may be identified in this report.

As at December 31, 2017, assets managed by FUNBIO amounts to R\$788 million (2016 – R\$734 million), out of which approximately 56% are linked to long-term actions and projects organized in the form of funds.

FUNBIO's governance is led by the Advisory Board (AB), which is composed of 16 members from academic institutions, environmental agencies, civil society, companies, and government and is responsible for defining the organization's strategy and overall direction. The Advisory Board holds three times a year to evaluate the strategic directions and institutional management: The Board establishes a general policy, sets goals and priorities, transformed into actions by the Executive Secretariat. The AB approves annual operational plans, investment policies and developed projects. The Board members participate as volunteers, bringing their experience and knowledge. The Advisory Board is organized into Committees that deal with specific issues, such as Management, Project Techniques, and Finance & Audit and an Asset Management Committees.

Since 2013, FUNBIO adopts the following environmental and social protection policies, which establish the principles of our work: Indigenous Population, Assessment of Environmental and Social Impact, Protection of Habitats, Physical Cultural Resources, Involuntary Resettlement, Pest Management and Complaints, Control and Responsibility System.

The Entity is part of the Environmental Funds Network of Latin America and the Caribbean, with 21 organizations in 16 countries, which, since 1999, already managed over US\$2 billion in equity and sinking funds, supporting more than 900 protected areas.

FUNBIO is guided by core values such as: effectiveness, ethics, intellectual independence, innovation, responsiveness and transparency, and this report is part of the Entity's effort in this regard.

2. Project description

Tropical Forest Conservation Act (TFCA) Agreement

The Tropical Forest Conservation Act (TFCA) derives from a bilateral agreement between Brazil and the United States whereby debts assumed by countries with the US government are exchanged by investments in the conservation and sustainable use of the forests. More than 10 countries all over the world have already signed the Agreement with the US. FUNBIO serves as the executive secretariat of the TFCA Account, which receives funds and allocates them to projects at areas with remaining Atlantic Forest, Cerrado and Caatinga biomes, which, together, cover around 50% of Brazil. The debt exchange totaled US\$20.8 million.

Since 2011, the TFCA has launched seven calls for projects, which resulted in the support to 89 projects, in the following thematic lines: Protected Areas; Landscape Management; Training; Species Management; Community Projects; Network Building; Training for Mobilization of Financial Resources, and support to projects in the São Francisco basin and Caatinga biome.

In 2017, the following activities were performed:

Uncompleted projects of Phases 2 and 3 were monitored based on technical and financial reports provided every six months. In addition, in-site monitoring will be performed throughout 2018.

The project performed by Fundação Brasileira para o Desenvolvimento Sustentável (FBDS) one of the seven being conducted in 2016, was completed in the second half of 2017 and the projects submitted by Ação Social Diocesana de Santa Cruz do Sul (ASDISC) and Associação do Movimento Interestadual das Quebradeiras de Coco Babaçu (AMIQCB) received additional funds equivalent to 10% of the agreement amount, due to their execution capacity shown from the technical and financial reports. The other projects followed their normal execution and are expected to be completed as defined in the underlying agreements. In 2017, disbursements were made for the projects, totaling R\$1,268,166.

Throughout 2017, the Account TFCA did not receive additional funds.

3. Significant accounting policies

Basis of preparation and general information

The financial statement of the Project Tropical Forest Conservation Act ("TFCA Agreement") has been prepared in accordance with the government audit requirements issued by the Comptroller General of the United States of America. The accounting policies adopted by Management are described below:

- **Fund Accountability Statement:** as FUNBIO uses its own financial management and accounting system for reporting the Project operations, the chart of accounts used has the classification of accounting line items. The financial statement of the Tropical Forest Conservation Act ("TFCA Agreement"), managed by Fundo Brasileiro para a Biodiversidade – FUNBIO was prepared using the cash basis, which consists in accounting for revenues when received and in accounting for costs and expenses only when payment in local currency is actually made.
- **Revenues:** Revenues are recognized on the date in which funds are transferred by the Brazilian Government to FUNBIO and are made available in a FUNBIO's checking account.
- **Exchange rate:** Project's financial records are maintained in Reais, the Brazil's currency. On December 29, 2017, the exchange rate of Real against the US dollar was R\$ 3.30 (USD'.00). The financial statement of the Tropical Forest Conservation Act ("TFCA Agreement") was prepared in Reais (R\$).

4. Cash on hand

In 2017, the balances held in bank balances are as follows:

Description	Type	In R\$
Banco do Brasil - C/A 122206-2	Checking account	208
Banco do Brasil - C/Invest CDB 122206-2	Automatic investment	73,454
Banco do Brasil - C/Fix Inc Invest 122206-2	Automatic investment	840,878
Total cash and cash equivalents		914,540

In 2017, income from short-term investments amounted to R\$126,841.

Cash amounts linked to the project are maintained in a specific checking account (TFCA Account) and financial investments in investment funds and bank certificates of deposit - CDBs, which have a liquidity shorter than 90 days, with an insignificant risk of decrease in value. These investments comprise CDBs remunerated at the CDI rate and other investments in investment funds, held in prime financial institutions.

5. Transfers of funds – “TFCA Agreement”

FUNBIO received financial support under Donation Agreement (“TFCA Agreement”), between the Government of the United States of America and the Federative Republic of Brazil, dated August 12, 2010, for the development of the Project TFCA – Tropical Forest Conservation Act.

The contributed amounts, once received, were credited to the account No. 122206-2 (checking account and automatic investment), maintained at Banco do Brasil, supplied by funds from the US government transferred through the Federative Republic of Brazil.

Through December 31, 2017, the Government of the United States of America provided financial resources amounting to thirty-eight million, nine hundred seventy-one thousand, ninety-six reais (R\$ 38,971,096). The contributions are recorded in local currency (Reais) and there is no impact from exchange rate changes in the Project's financial statement. During 2017, no additional contributions were made.

The statement of these contributions is shown below:

Date	Amount (in R\$)
Total 2011	14,067,107
Total 2012	12,727,122
Total 2013	9,223,787
Total 2014	2,402,351
Total 2015	550,730
Total 2016	-
Total 2017	-
Total contributions through 12/31/2017	38,971,096

6. Reconciliation of cash on hand

The reconciliation between the surplus income and costs incurred on amounts held in bank accounts and the respective short-term investments as at December 31, 2017, is summarized below:

	In R\$
Breakdown of cash and cash equivalents:	
Operational account	-
Banco do Brasil - C/A 122206-2	208
Banco do Brasil - C/Invest CDB 122206-2	73,454
Banco do Brasil - C/Fix Inc Invest 122206-2	840,878
Cash and cash equivalents at December 31, 2017	914,540
Accounting reconciliation adjustments (*)	(6,154)
Project account balance	908,385

(*) Amount relating to financial reporting inherent in the project, which included adjustments to Requests for Payment and Internal Communications referring to mail expenses, air tickets, FUNBIO management, per diems, travel expense accountability, external audit and taxes, which are reconciled to accounting records and posted as adjustments in 2018.

7. Cost sharing expenses

The “TFCA Agreement” does not provide for cost sharing (consideration) for Project TFCA to be provided by Fundo Brasileiro para a Biodiversidade – FUNBIO.

8. Contingencies

The Project’s Management, supported by its in-house and external legal advisors, assessed the likelihood of contingencies that may be started in connection with the Project. Through December 31, 2017, no lawsuits had been filed against FUNBIO or this Project.

9. Explanation added to the translation for the English version

The accompanying financial statements were translated into English from the original Portuguese version prepared for local purposes. Certain accounting practices applied by the Company that conform to those accounting practices adopted in Brazil may not conform to the generally accepted accounting principles in the countries where these financial statements may be used.

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Independent Auditor's Report on the internal control system of the Project "Tropical Forest Conservation Act" (TFCA)

To the
Management of
Fundo Brasileiro para Biodiversidade - FUNBIO
Project "Tropical Forest Conservation Act" (TFCA)
Rio de Janeiro – RJ

This is a complementary report to our report on the financial statement of the Project "Tropical Forest Conservation Act" (TFCA)

The Management of Fundo Brasileiro para Biodiversidade – FUNBIO, the manager of the Project "Tropical Forest Conservation Act" (TFCA) is responsible for establishing and maintaining an internal control system sufficient to mitigate the risks of misstatements in the financial information and protect the assets under the Project's management, including the construction works and other assets acquired. To fulfill this responsibility, Management is required to make judgments and estimates to assess the expected benefits and costs relating to the internal control system's policies and procedures. The objectives of an internal control system are to provide reasonable, but not absolute, assurance to Management that the assets are safeguarded from unauthorized use or disposition, that transactions are executed in accordance with Management's authorization and the terms of the agreement and recorded properly to permit the preparation of reliable financial reports. Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk since procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate.



In planning and developing our audit of the financial statement of the “TFCA Agreement” for the year ended December 31, 2017, we gained an understanding of the current internal control system and assessed the control risk to determine the audit procedures in order to express an opinion on the financial statement of the “TFCA Agreement”, and not to express an opinion on the effectiveness of the internal control system. Therefore, we do not express such opinion.

Our audit of the Project “Tropical Forest Conservation Act” (TFCA) for the year ended December 31, 2017 did not reveal significant deficiencies in the design or operation of the internal control system that, in our opinion, could adversely affect FUNBIO’s ability to record, process, summarize and present financial information in a manner consistent with the Management’s assertions in the statements of funds received and disbursements made, as well as accumulated investments.

A significant deficiency is a condition in which the design or operation of one or more elements of the internal control system do not reduce to a relatively low level the risk that errors or irregularities may occur in amounts that could be significant in relation to the Project’s basic financial statement, and that could not be timely detected by FUNBIO’s personnel during the normal course of operations.

Our consideration about the internal control system does not necessarily expose all matters regarding the system that could be considered significant deficiencies and, therefore, should not necessarily expose all conditions to be informed that could be considered significant deficiencies in accordance with the previous definition.

Rio de Janeiro, April 26, 2018


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

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



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Independent Auditor's Report on compliance with standards, laws and regulations of the Project "Tropical Forest Conservation Act" (TFCA)

To the
Management of
Fundo Brasileiro para Biodiversidade - FUNBIO
Project "Tropical Forest Conservation Act" (TFCA)
Rio de Janeiro – RJ

We performed an audit of the financial statement on the accountability of the Project Tropical Forest Conservation Act ("TFCA Agreement"), managed by Fundo Brasileiro para Biodiversidade – FUNBIO, financed with funds from the "TFCA Agreement" signed with the Government of the United States of America, which comprise the financial statement for the period from January 1 to December 31, 2017, and we issued our report thereon, dated April 26, 2018.

In connection with our audit, we examined compliance with contractual clauses and articles established in the "TFCA Agreement", applicable at December 31, 2017, and other agreements signed between the parties, Laws and other legal provisions in Brazilian legislation.

We conducted our audit in accordance with the International Standards on Auditing and the requirements set out by the Government of the United States of America, formalized by the "United States Government Accountability Office" by means of the 4th chapter of "GAO's Yellow Book". These standards require the due planning and performance of the audit to obtain reasonable assurance that FUNBIO complied with the relevant clauses under the "TFCA Agreement" and other agreement signed between the parties, Laws and other legal provisions in the American and Brazilian laws. An audit includes an examination of appropriate evidence based on supporting documentation. We consider that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



In our opinion, in the year ended December 31, 2017, FUNBIO complied, in all material respects, with the contractual clauses of the "TFCA Agreement" for the Project Tropical Forest Conservation Act and other agreements signed between the parties, Laws and other legal provisions in Brazilian legislation.

Rio de Janeiro, April 26, 2018

A handwritten signature in blue ink that reads "Ana Cristina Linhares Areosa".

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

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