

Financial Information

Fundo Brasileiro para a Biodiversidade - FUNBIO

December 31, 2018 and 2017
with Independent Auditor's Report on the financial information of
the "Tropical Forest Conservation Act (TFCA)" Project

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial information of the “Tropical Forest Conservation Act (TFCA)” Project

December 31, 2018 and 2017

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A free translation from Portuguese into English of Independent Auditor's Report on financial information prepared on a receipt and payment accounting base

Independent auditor's report on the financial information of the "Tropical Forest Conservation Act (TFCA)" Project

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade – FUNBIO
"Tropical Forest Conservation Act (TFCA)" Project
Rio de Janeiro - Rio de Janeiro State

Opinion

We have audited the financial information of the "Tropical Forest Conservation Act (TFCA)" Project, managed by Fundo Brasileiro para a Biodiversidade – FUNBIO (the "Entity"), funded by the "TFCA Agreement" of the government of the United States of America, for the period from January 1 to December 31, 2018, including a summary of significant accounting policies and the explanatory notes.

In our opinion, the financial information referred to above present fairly, in all material respects, the amounts received and paid in the period from January 1 to December 31, 2018, in accordance with the "TFCA Agreement" and accounting base for receipts and payments described in Note 2.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial information" section of our report. We are independent of the Entity in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC") 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 opinion.

Emphasis of matter – basis of preparation and presentation of the Project financial information and restriction on use

We draw attention to Note 2 to the Project financial information, which describes the basis of preparation and presentation of these financial information, aimed at assisting FUNBIO in evidencing compliance with the covenants of aforementioned Agreement relating to preparation of financial information. As such, the Project financial information do not serve for other purposes. Our report is intended solely for compliance with the terms of the "TFCA Agreement" of the US government. Our opinion is not modified in respect of this matter.



Other matters

Audit of corresponding figures

The Project financial information for the period from January 1, 2017 to December 31, 2017, presented for comparison purposes in the Notes, were audited by other independent auditors, who issued an unmodified opinion thereon dated April 26, 2018.

Responsibilities of management and those charged with governance for the financial information

Management is responsible for the preparation and fair presentation of these financial information in accordance with the accounting base for receipts and payments described in Note 2 and with the terms of the “TFCA Agreement” of the US government, which includes determining that referred to base is acceptable for the preparation of the financial information under the circumstances, and for such internal control as management determines is necessary to enable the preparation of these financial information that are free from material misstatement, whether due to fraud or error.

In preparing the financial information, management is responsible for assessing the Project’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using this basis of accounting for preparing the financial information, unless management either intends to end the Project, or has no realistic alternative to prevent the Project from ending.

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

As described in Note 2, the financial information were prepared on the accounting base of receipts and payments. Referred to accounting base recognizes transactions and facts only when funds (including fund equivalents) are received or paid by the Project and not when these amounts result from, are earned or originate from rights or obligations that have not yet produced a change in funds (cash).

Auditor’s responsibilities for the audit of the financial information

Our objectives are to obtain reasonable assurance about whether the financial information 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 a guarantee that an audit conducted in accordance with the 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 these financial information.



As part of the audit conducted in accordance with the Brazilian and International Standards on Auditing, and the specific audit requirements set out in the US government "TFCA Agreement", we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the financial information, 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 one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used (described in Note 2) 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 substantial doubt on the Project's ability to continue as a going concern. 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 information 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 as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represent the corresponding 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 may be identified during our audit.

Rio de Janeiro, May 23, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in blue ink that reads 'Walter G. Neumayer'.

Walter G. Neumayer
Accountant CRC-RJ091659/O-0

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial information of the "Tropical Forest Conservation Act (TFCA)" Project

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

	Budgeted								Realized								Accumulated
	2011	2012	2013	2014	2015	2016	2017	2018	2011	2012	2013	2014	2015	2016	2017	2018	
Funds received																	
Cooperation agreement	13,387	12,451	8,587	2,341	383	-	-	-	14,067	12,727	9,224	2,402	551	-	-	-	38,971
Interest received	669	998	1,000	943	304	168	78	23	654	1,030	1,175	1,196	688	348	127	28	5,247
Total revenues	13,448	13,448	9,587	3,284	687	168	78	23	14,721	13,757	10,399	3,599	1,239	348	127	28	44,218
Personnel expenses																	
Services contracted (administrative fee + audit)	95	1,551	2,219	887	767	310	201	120	101	948	1,213	1,229	901	217	198	102	4,909
Total personnel expenses	95	1,551	2,219	887	767	310	201	120	101	948	1,213	1,229	901	217	198	102	4,909
Other expenses																	
Disbursement - Invitation to Bid 1 (a)	-	11,107	9,158	3,552	2,159	-	-	-	-	7,455	5,057	4,735	2,344	(119)	-	-	19,472
Disbursement - Invitation to Bid 2 (b)	-	520	1,900	680	552	-	-	-	-	462	669	827	622	(33)	-	-	2,547
Disbursement - Invitation to Bid 3 (c)	-	1,056	1,535	735	68	-	-	-	-	824	831	924	108	(115)	-	-	2,572
Disbursement - Invitation to Bid 4 (d)	-	-	4,400	2,022	2,792	-	-	-	-	-	3,285	3,238	2,711	78	-	-	9,312
Disbursement - Phase 2 (e)	-	-	-	-	-	1,817	1,138	360	-	-	-	-	-	738	1,018	310	2,066
Disbursement - Phase 3 (f)	-	-	-	-	-	430	200	316	-	-	-	-	-	470	250	176	896
Support to RedLAC (g)	-	-	-	-	-	-	-	-	-	-	-	-	-	272	-	-	272
Impact assessment	-	-	-	-	-	400	148	-	-	-	-	-	-	38	147	-	185
Qualification of new projects - Phases 2 and 3	-	-	-	-	-	12	-	-	-	-	-	-	-	11	-	-	11
Travel and lodging - Committee	65	145	62	43	43	48	48	49	54	40	33	41	46	43	17	15	288
Travel and Lodging - Technical Chamber	-	108	-	-	-	-	-	-	18	116	1	-	-	24	-	-	159
Travel and lodging - Project monitoring	-	100	101	168	229	41	16	11	-	1	84	74	51	-	3	12	225
Seminars	-	-	982	-	500	-	-	-	-	-	365	8	392	17	-	-	782
Mailing	-	8	3	2	2	1	3	2	-	2	1	1	1	1	1	1	9
Communication and reports	-	-	-	-	150	-	-	-	-	-	-	-	156	-	-	-	156
Finance costs (Tariffs)	1	3	2	2	2	2	2	2	21	1	1	1	1	-	-	-	27
Sundry expenses (j)	-	1	1	2	2	1	-	-	-	-	-	-	-	7	-	-6	1
Total other expenses	66	13,048	18,143	7,204	6,497	2,753	1,555	740	94	8,902	10,328	9,850	6,432	1,432	1,436	508	38,980
Total expenses	161	14,599	20,363	8,091	7,265	3,063	1,756	859	194	9,850	11,541	11,079	7,332	1,649	1,635	609	43,891
Balance at 12/31/2018																	327

See accompanying notes.

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial information of the "Tropical Forest Conservation Act (TFCA) Project" (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

Notes:

- (a) The purpose of this invitation to bid was to select projects for protected areas, landscape management, qualification, species management and community projects in the 3 biomes, with initial funds amounting to R\$ 16,500 which, after decision by TFCA Account Committee, were increased by R\$ 3,500, amounting to approximately R\$ 20,000.
- (b) The purpose of this invitation to bid was to select projects to strengthen NGO networks in the Atlantic Forest and Caatinga in order to leverage the civil society, synergies and information exchange between environmental entities acting in referred to biomes, with total funds of R\$ 3,500. As at December 31, 2018, approximately R\$ 2,547 had been used.
- (c) The purpose of this invitation to bid was to select projects to obtain financial resources, allowing new preservation and restoration actions in the 3 biomes, with total funds of R\$ 3,300. As at December 31, 2018, approximately R\$ 2,572 had been used.
- (d) The purpose of this invitation to bid was to select projects for protected areas, landscape management, qualification, species management and community projects in the 3 biomes, with total initial funds amounting to R\$ 7,500. In 2014, four new projects were approved, amounting to R\$ 1,900. Additions to another four projects were also approved, amounting to R\$ 240. The total amount approved for these projects is R\$ 9,640, of which R\$ 9,312 had been used until December 31, 2018.
- (e) The purpose of this selection was to support tropical forest preservation, maintenance and restoration projects in the Atlantic Forest, Caatinga and Cerrado and their transition zones, with total funds of R\$ 2,000. After approval by TFCA Account Committee, there was an increase of R\$90, in order to provide additional support to projects with execution capacity demonstrated by means of technical and financial reports. As at December 31, 2018, approximately R\$ 2,066 had been used.
- (f) The purpose of this selection was to support strengthening projects focused on the social biodiversity production chains in the Caatinga region of São Francisco River Basin, with total funds of R\$896.
- (g) Support to 18th RedLAC Meeting, with total funds amounting to R\$ 272.
- (h) The negative amounts stated in 2016 for Invitations to Bid 1, 2 and 3 refer to unused funds returned by the projects supported.
- (i) Amounts budgeted are forecasts based on cash flow and computed on an item-by-item basis each year. As such, these amounts are not cumulative.
- (j) Financial adjustment inherent in the project, comprised of payment requests and internal communications referring to expenses with mailing, air tickets, FUNBIO management, per diem allowances, rendering of travel accounts, external audit and taxes, which were reconciled in accounting and posted as an adjustment in 2018.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of the “Tropical Forest Conservation Act (TFCA) Project”

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations

Fundo Brasileiro Para a Biodiversidade (FUNBIO) is a Brazilian private not-for-profit institution that operates in partnership with the government and business sectors as well as the civil society so that strategic and financial resources are earmarked for effective biodiversity conservation initiatives. The Entity’s head office is located at Rua Voluntários da Pátria, nº 286, 5th and 6th floors, Botafogo, Rio de Janeiro, state of Rio de Janeiro.

The main activities carried out include financial management of projects, design of financial mechanisms and studies of new sources of funds for conservation, as well as purchases and engagements of goods and services. Since the beginning of its activities in 1996, FUNBIO has supported 285 programs and projects, benefiting 234 institutions across the country.

The Tropical Forest Conservation Act (TFCA) results from a bilateral agreement between Brazil and the United States, aimed at exchanging debts incurred by countries with the U.S. Government for investments in the conservation and sustainable use of forests. Worldwide, over ten countries have executed the agreement with the USA. FUNBIO is the executive secretariat of the TFCA Account, which receives the funds and allocates these to the projects at areas with remaining Atlantic Forest, Cerrado (savanna) and Caatinga (scrubland) biomes, which, together, cover approximately 50% of the country. The debt exchange totaled U\$20.800.

Since 2011, the TFCA has launched five calls for projects, which resulted in the support to 90 projects, which are included in the following thematic lines: Protected Areas; Landscape Management; Training; Species Management; Community Projects; Network Strengthening; Training for Mobilization of Financial Resources, and support to projects in the São Francisco river basin in Caatinga biome.

In 2018 and 2017, the operational TFCA Account received no additional portions.

In 2018, the following actions related to technical management were carried out:

- 16th and 17th ordinary meetings of the TFCA Account Committee, one of which was held in the field, in Parque Nacional da Chapada dos Veadeiros PNCV - (Chapada dos Veadeiros National Park);
- Support to project “Manejo Integrado do Fogo” (Integrated Fire Management) in PNCV, state of Goiás;
- Second phase of CAR Project - mobilization for creation of the Veadeiros Mosaic.
- The projects and their activities presented below were finalized.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of the “Tropical Forest Conservation Act (TFCA) Project” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

Creole Seeds, Seeds for Life Project implemented by ASDISC (completed in May 2018)

Monitoring visit undertook in February 2018;

This project involved 64 rural young people in practical workshops and training stages in agroecology. Individual projects implemented, involving: colonial poultry, construction of bio-digestors, planting of vegetable gardens and orchards, colonial pig farming, beekeeping, production of molasses, goat farming and handicraft;

Additional support - approved in March 2018. This fund was used to arrange a meeting for final evaluation of the project with creole seed guardians and for the purchase of fair stands and inputs for the continuity of projects for young people.

Strengthening of Babassu Coconut Breaking Women and of production practices for access to institutional markets - AMIQCB (completed in September 2018)

Monitoring visit undertook in March 2018;

This project enabled the purchase of equipment and goods for the production groups of 6 regional offices served, meetings held, technical follow-up of activities, training for executive coordination and assistance in preparing projects;

Additional support of R\$ 40 approved in April 2018. This fund was used for training in mesocarp by-product production and hosting seminars.

Strengthening Sustainable Organic Agroextractivism Project in the city of Pedras de Maria Cruz, state of Minas Gerais, Caatinga - CEDAC (completed in March 2018)

Forty-five families were supported by the organic certification initiative and 24 of them received the certificate. This project enabled the forest inventory of the area covered by TAUS (Authorization Term for the Sustainable Use of Caraíbas), preparation of the organic plan of the area of the 1st TAUS in the state of Minas Gerais as a reference for other groups and non-timber forest management of caatinga products, development of a project related to the National Food Acquisition Program (“PAA”) focused on school feeding with umbú and jatobá as well as implementation of the Minimum Price Guarantee Policy for Socio-biodiversity (“PGPMbio”) for caatinga products together with the farmers (states of MG, TO, MT, GO and BA).

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of the “Tropical Forest Conservation Act (TFCA) Project” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

Backland Women - PAJEÚ (completed in December 2018)

Training sessions were carried out for improving production systems and internal control of purchases, inventory and finances. This project enabled the hiring of a chemist for analysis and registration of the products’ bar code, acquisition of inputs and implementation of nurseries. The activities involved the planting of 400 umbuzeiro (*spondias tuberosa*) seedlings, workshops with the women participating in the project on the general organization of the group, rights and themes related to gender equality and violence against women, in addition to the technical assistance to the Network, which is of continuous execution (state of Pernambuco).

Sustainable Products from the Socio-biodiversity of Caatinga Biome - AGENDHA (completed in December 2018)

Thematic workshops were held on the utilization of socio-biodiversity species in food, handicraft making, cosmetics production and institutional management, production and agroindustry in the organizations participating in the project and preparation of 8 anticipated business plans. Exhibition and sale of the items produced and maintenance of the shopping portal and digital catalog of caatinga (state of Bahia) socio-biodiversity products.

2. Summary of significant accounting practices

Basis of preparation and general information

The financial information of the Tropical Forest Conservation Act (“TFCA Agreement”) were prepared on a receipt and payment accounting base, whereby revenues are recognized upon receipt of funds (resources) and expenses are recorded when they effectively represent expenses paid in cash (cash), as well as in accordance with governmental audit requirements issued by the Comptroller General of the United States of America. The other accounting policies adopted by management are as follows:

1. Statement of the Fund’s Responsibility: since FUNBIO uses its own accounting and financial management system to present the Project’s operations, the chart of financial information used states the classification of accounting headings. The financial information of the Tropical Forest Conservation Act (“TFCA Agreement”), managed by Fundo Brasileiro para a Biodiversidade - FUNBIO were prepared on a cash basis, which consists in accounting for revenues only when these amounts are effectively received and for costs and expenses only when these amounts are effectively paid in legal tender.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of the “Tropical Forest Conservation Act (TFCA) Project” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting practices (Continued)

Basis of preparation and general information (Continued)

2. Revenues: these are recognized on the date when the funds are transferred by the Brazilian government to FUNBIO and become available in FUNBIO checking account.
3. Exchange rate: the Project’s financial records are maintained in reais, i.e. in Brazilian currency. As at December 31, 2018, the real quotation against the US dollar was R\$ 3.87 (USD 1.00). The financial information of the Tropical Forest Conservation Act (“TFCA Agreement”) were prepared in reais (R\$).

3. Funds available

In 2018, the balances remaining in checking accounts are as follows:

Description	Type	Amount
Banco do Brasil - C/C 122206-2	Checking account	-
Banco do Brasil – CDB invest. 122206-2	Automatic investment	97
Banco do Brasil – Fixed income invest. 122206-2	Automatic investment	230
Total cash and cash equivalents		327

In 2018, gains from short-term investments amounted to R\$ 28.

Project-related cash and cash equivalents are held in a specific checking account (TFCA Account) and short-term investments comprise investment funds and Bank Deposit Certificates (CDB), which mature within 90 days and pose a low risk of decrease in value. These investments are comprised of CDBs remunerated at the Interbank Deposit Certificate (CDI) rate and other investments in investment funds, held in first-tier financial institutions.

4. Transfers of funds – “TFCA Agreement”

FUNBIO received financial support through a Donation Agreement (“TFCA Agreement”) between the US government and the Brazilian government, dated August 12, 2010, in order to develop the TFCA - Tropical Forest Conservation Act Project.

When received, the fund amounts are credited in account No. 122206-2 (checking account and automatic investment), held in Banco do Brasil. These funds are provided by the US government and transferred through the Brazilian government.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of the “Tropical Forest Conservation Act (TFCA) Project” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

4. Transfers of funds – “TFCA Agreement” (Continued)

As at December 31, 2018, the funds provided by the US government totaled R\$ 38,971, recorded in Brazilian currency (reais). Exchange differences have no impact on Project accounts. In 2018, no amounts were contributed.

These contributions are as follows:

<u>Date</u>	<u>Amount</u>
Total - 2011	14,067
Total - 2012	12,727
Total - 2013	9,224
Total - 2014	2,402
Total - 2015	551
Total - 2016	-
Total - 2017	-
Total until 12/31/2018	<u>38,971</u>

5. Reconciliation of funds available

Reconciliation of excess revenues and costs incurred to amounts available in checking accounts and respective short-term investments at December 31, 2018 is summarized as follows:

	<u>Amount</u>
Breakdown of cash and cash equivalents:	
Operational account	
Banco do Brasil - C/C 122206-2	-
Banco do Brasil – CDB invest. 122206-2	97
Banco do Brasil – Fixed income invest. 122206-2	230
Cash and cash equivalents at December 31, 2018	327
Accounting reconciliation adjustments	-
Project’s book balance	<u>327</u>

6. Contributions for expenses with consideration

“TFCA agreement” does not foresee cost sharing (counterpart) for TFCA project to be provided by Fundo Brasileiro para a Biodiversidade – FUNBIO.

A free translation from Portuguese into English of Independent Auditor's Report on compliance with the accounting and financial contractual provisions

Independent auditor's report on compliance with the accounting and financial contractual provisions of the "Tropical Forest Conservation Act (TFCA)" Project

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade – FUNBIO
"Tropical Forest Conservation Act (TFCA)" Project
Rio de Janeiro - Rio de Janeiro State

We audited the financial information for the period from January 01 to December 31, 2018 of the Tropical Forest Conservation Act (TFCA) Project, managed by Fundo Brasileiro para a Biodiversidade – FUNBIO (the "Entity"), funded by "TFCA Agreement" of the US government, and issued our report thereon dated May 23, 2019.

Our audited was focused on checking whether the contractual clauses directly related to accounting and financial matters of the TFCA Agreement are appropriately complied with.

We conducted our audit in accordance with International Standards on Auditing and the specific requirements set out in the US government "TFCA Agreement. These standards require that we plan and conduct the audit in order to obtain reasonable certainty that FUNBIO has complied with the covenants set out in the TFCA Agreement. The audit includes review, on a test basis, of the evidence deemed appropriate by us. Accordingly, we believe that our audit provides a reasonable base for our opinion.

In our opinion, as at December 31, 2018, FUNBIO complied with, in all significant respects, the contractual clauses applicable, of an accounting and financial nature, of the US government TFCA Agreement.

Rio de Janeiro, May 23, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6



Walter G. Neumayer
Accountant CRC-RJ091659/O-0

Independent auditor's report on the internal controls of the "Tropical Forest Conservation Act (TFCA)" Project

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade – FUNBIO
"Tropical Forest Conservation Act (TFCA)" Project
Rio de Janeiro - Rio de Janeiro State

This report supplements our report on the financial information of the Tropical Forest Conservation Act (TFCA) Project.

Management of Fundo Brasileiro para a Biodiversidade – FUNBIO (the "Entity"), which manages the Tropical Forest Conservation Act (TFCA) Project is responsible for maintaining internal controls sufficient to mitigate the risks of significant misstatements in the financial information and protect the assets under custody of the Project, including the areas constructed and other assets acquired. In order to fulfill this responsibility, management is required to make judgments and estimates to evaluate the expected benefits and costs relating to internal control policies and procedures. An internal control system is aimed at providing management with reasonable assurance, but not a guarantee, that the assets are protected against losses deriving from unauthorized use or disposal, that the transactions are performed in accordance with management authorization and that the agreement terms are appropriately recorded in order to allow the financial information to be fairly prepared. Due to the limitations inherent in any internal control system, errors or irregularities may occur and remain undetected. In addition, the projections of any future periods' structure assessment are subject to the risk that the procedures may be inadequate due to changes in conditions, or that the efficiency of the design and operation of the policies and procedures may be impaired.

In planning and conducting our audit of the Project financial information for the period from January 01 to December 31, 2018, we obtained an understanding of the internal control structure and assessed the risk of controls to determine our audit procedures, in order to express an opinion on the Project financial information, but not to issue an opinion on internal control efficiency.

Our audit of the Tropical Forest Conservation Act (TFCA) Project for the period from January 01 to December 31, 2018 identified no significant deficiencies in internal control design or operation which could, in our opinion, significantly affect FUNBIO's ability to record, process, summarize and present financial information consistently with management affirmations in the statements of the funds received and disbursements made, as well as with accumulated investments.



A significant deficiency is a condition in which the design or operation of one or more elements of the internal control structure does 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 financial information, and that could not be timely detected by FUNBIO employees in the normal course of their duties.

Our consideration on the internal control structure does not necessary expose all matters relating to this system that could be considered significant deficiencies and, as such, should not necessarily expose all conditions to be informed that could be considered significant deficiencies, in accordance with the prior definition.

Rio de Janeiro, May 23, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in blue ink, appearing to read 'Walter G. Neumayer', is written over a faint, light blue circular stamp.

Walter G. Neumayer
Accountant CRC-RJ091659/O-0