

Financial Information

Fundo Brasileiro para Biodiversidade - FUNBIO

Period from January 1 to November 30, 2019
with Independent Auditor's Report on Financial Information on the
"Tropical Forest Conservation Act (TFCA)" Project

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial Information on the “Tropical Forest Conservation Act (TFCA)” Project

Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018

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A free translation from Portuguese into English of Independent Auditor's Report on Financial Information on the "Tropical Forest Conservation Act (TFCA)" Project prepared in Brazilian currency in accordance with "TFCA Agreement" and accounting base for receipts and payments described in Note 2.

Independent auditor's report on Financial Information on the "Tropical Forest Conservation Act (TFCA)" Project

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

Opinion

We have audited the Financial Information on the "Tropical Forest Conservation Act (TFCA)" Project, managed by Fundo Brasileiro para a Biodiversidade - FUNBIO (the "Institution"), funded by the "TFCA Agreement" of the government of the United States of America, for the period from January 1 to November 30, 2019, including a summary of significant accounting practices and other explanatory information.

In our opinion, the financial information referred to above presents fairly, in all material respects, the amounts received and paid in the period from January 1 to November 30, 2019, 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 Project 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's financial information and restriction on use

We draw attention to Note 2 to the Project's financial information, which describes the basis of preparation and presentation of this financial information, aimed at assisting FUNBIO in evidencing compliance with the terms of aforementioned Agreement relating to preparation of financial information. As such, the Project's financial information does 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.

Emphasis of matter - closing of the Project

We draw attention to Note 1 to the Project's financial information, which describes that in 2019 all of the planned objectives were met, all funds available were used and the activities were closed within the scheduled period. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of this financial information in accordance with the accounting base for receipts and payments described in Note 2 and with the terms of the "TFCA Agreement" entered into by the Institution and the sponsors. This includes determining that the base for receipts and payments is acceptable for the preparation of this financial information under the circumstances, and for such internal control as management determines is necessary to enable the preparation of this financial information that is free from material misstatement, whether due to fraud or error.

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

As described in Note 2, the financial information was prepared on the accounting base of funds (cash). The accounting base of funds 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 is 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 this 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 exercised professional judgment and maintained professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the financial information, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained 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 Institution’s internal control.
- Evaluated the appropriateness of accounting policies used (described in Note 2) and related disclosures made by management.

We communicated 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 have been identified during our audit.

Rio de Janeiro, May 19, 2020.

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

A handwritten signature in blue ink, which appears to read 'W. Neumayer', is placed above the printed name.

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

A free translation from Portuguese into English of Financial Information on the “Tropical Forest Conservation Act (TFCA)” Project prepared in Brazilian currency in accordance with “TFCA Agreement” and accounting base for receipts and payments described in Note 2.

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial Information on the “Tropical Forest Conservation Act (TFCA)” Project
Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018
(In thousands of reais - R\$, unless otherwise stated)

	Budgeted									Realized									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2011	2012	2013	2014	2015	2016	2017	2018	2019	Accumulated
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	7	654	1,030	1,175	1,196	688	348	127	28	6	5,252
Total revenues	13,448	13,448	9,587	3,284	687	168	78	23	7	14,721	13,757	10,399	3,598	1,239	348	127	28	6	44,223
Personnel expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services contracted (administrative fee + audit)	95	1,551	2,219	887	767	310	201	120	83	101	948	1,213	1,229	901	217	198	102	86	4,995
Total personnel expenses	95	1,551	222	887	767	310	201	120	83	101	948	1,213	1,229	901	217	198	102	86	4,995
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	235	-	-	-	-	-	470	250	176	224	1,120
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	10	54	40	33	41	46	43	17	15	5	294
Travel and lodging - Technical Chamber	-	108	-	-	-	-	-	-	-	18	116	1	-	-	24	-	-	-	159
Travel and lodging - Project monitoring	-	100	101	168	229	41	16	11	4	-	1	84	74	51	-	3	12	3	228
Seminars	-	-	982	-	500	-	-	-	-	-	-	365	8	392	17	-	-	-	782
Mailing	-	8	3	2	2	1	3	2	-	-	2	1	1	1	1	1	1	1	9
Communication and reports	-	-	-	-	150	-	-	-	-	-	-	-	-	156	-	-	-	14	170
Finance costs (Tariffs)	1	3	2	2	2	2	2	2	1	21	1	1	1	1	-	-	-	1	26
Sundry expenses (j)	-	1	1	2	2	1	-	-	1	-	-	-	-	-	7	-	-6	2	3
Total other expenses	66	13,048	18,143	7,204	6,497	2,753	1,555	739	252	93	8,901	10,327	9,849	6,432	1,432	1,436	508	250	39,228
Total expenses	161	14,599	20,363	8,091	7,265	3,063	1,756	859	335	194	9,849	11,540	11,078	7,333	1,649	1,634	610	336	44,223
Balance at 12/31/2019																			R\$-

See accompanying notes.

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Financial Information on the “Tropical Forest Conservation Act (TFCA)” Project (Continued) Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018 (In thousands of reais - R\$, 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. By November 30, 2019, 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. By November 30, 2019, 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 November 30, 2019.
- (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. By November 30, 2019, 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\$1,120.
- (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.

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Notes to financial information on the “Tropical Forest Conservation Act (TFCA)” Project
Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018
(In thousands of reais - R\$, unless otherwise stated)

1. Operations

Fundo Brasileiro para a Biodiversidade - FUNBIO, with its head office located at Rua Voluntários da Pátria, 286 - 5º andar, Botafogo, city and state of Rio de Janeiro, is a not-for-profit institution, which began operating in 1996.

Funbio is an innovative financial mechanism, created to design strategies that contribute with implementation of the Convention on Biological Diversity (CDB) in Brazil. In the course of its 23-year operation, FUNBIO has been a strategic partner for the private sector, various state and federal entities and the organized civil society.

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\$20,842.

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 2019, the operational TFCA Account received no additional portions. In 2019, the total amount of R\$336 (R\$610 in 2018) was executed.

In 2019, the following results were achieved:

- Completion of a project carried out by IA-RBMA institution, in March;
- Completion of the last project in progress - Integrated Fire Management in the Chapada dos Veadeiros National Park; This project was successfully carried out, however, due to a small delay in the process of one of the expected contracting, its closing was postponed by two months. Initially scheduled for May, the project completion took place in July.
- Production of a book with results from phases 2 and 3 (not yet disclosed);
- Closing of the project within the scheduled period, in November.

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Notes to financial information on the "Tropical Forest Conservation Act (TFCA)" Project (Continued)
Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018

(In thousands of reais - R\$, unless otherwise stated)

2. Summary of significant accounting practices

Basis of preparation and general information

The financial information on the Tropical Forest Conservation Act ("TFCA Agreement") Project was 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 accounts used states the classification of accounting headings. The financial information on the Tropical Forest Conservation Act ("TFCA Agreement"), managed by Fundo Brasileiro para a Biodiversidade - FUNBIO was 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.
- (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 November 30, 2019, the Brazilian real quotation against the US dollar was R\$4.22 (USD1.00). The financial information on the Tropical Forest Conservation Act ("TFCA Agreement") was prepared in Brazilian reais (R\$).

The Project's financial information was authorized for issue by the Funbio' Directors on May 19, 2020.

3. Funds available

In the period from January 1 to November 30, 2019, all funds were executed. Therefore, the specific bank account of the TFCA Account was zeroed, as follows:

Description	Type	In thousands of reais
Banco do Brasil - C/C 122206-2	Checking account	-
Banco do Brasil - CDB invest. 122206-2	Automatic investment	-
Banco do Brasil - Fixed income invest. 122206-2	Automatic investment	-
Total cash and cash equivalents		-

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Notes to financial information on the “Tropical Forest Conservation Act (TFCA)” Project (Continued)
Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018

(In thousands of reais - R\$, unless otherwise stated)

3. Funds available (Continued)

In the period from January 1 to November 30, 2019, short-term investment yields totaled R\$ 6.

Project-related cash and cash equivalents were 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 yielding the CDI rate and other investments in investment funds, held in first-tier financial institution.

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 funds contributed 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.

As at November 30, 2019, the funds provided by the US government totaled R\$38,971, recorded in Brazilian currency (reais). Foreign exchange differences have no impact on the Project's financial information. In the period from January 1 to November 30, 2019, there were no other contributions.

These contributions are as follows:

Date	Amount
Total - 2011	14,067
Total - 2012	12,727
Total - 2013	9,224
Total - 2014	2,402
Total - 2015	551
Total - 2016	-
Total - 2017	-
Total - 2018	-
Total - 2019	-
Total until 12/31/2019	38,971

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to financial information on the “Tropical Forest Conservation Act (TFCA)” Project (Continued)
Periods from January 1 to November 30, 2019 and January 1 to December 31, 2018
(In thousands of reais - R\$, unless otherwise stated)

5. Reconciliation of funds available

Reconciliation of excess revenues and costs incurred to amounts available in checking accounts and respective short-term investments at November 30, 2019 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	-
Banco do Brasil – Fixed income invest. 122206-2	-
Cash and cash equivalents at November 30, 2019	-
Accounting reconciliation adjustments	-
Project’s book balance	<u>-</u>

6. Contributions for expenses with consideration

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

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

We have audited the Financial Information on the "Tropical Forest Conservation Act (TFCA)" Project, managed by Fundo Brasileiro para a Biodiversidade - FUNBIO (the "Institution"), funded by the "TFCA Agreement" of the government of the United States of America, for the period from January 1 to November 30, 2019, and issued our report thereon dated May 19, 2020.

Our audit was focused on checking whether the contractual provisions 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 terms 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 November 30, 2019, FUNBIO complied with, in all significant respects, the contractual provisions applicable, of an accounting and financial nature, of the US government TFCA Agreement.

Rio de Janeiro, May 19, 2020.

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 of
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 financial information on the Tropical Forest Conservation Act (TFCA) Project.

Management of Fundo Brasileiro para a Biodiversidade - FUNBIO, 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's financial information for the period from January 1 to November 30, 2019, 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's financial information, but not to issue an opinion on the effectiveness of the internal control structure.

Our audit of the Tropical Forest Conservation Act (TFCA) Project for the period from January 1 to November 30, 2019 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's financial information, and that could not be timely detected by FUNBIO employees in the ordinary 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 19, 2020.

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

A handwritten signature in blue ink, appearing to read 'W. Neumayer', is positioned above the printed name.

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