

Financial Statements

Instituto de Pesquisa Ambiental da Amazônia - IPAM

December 31, 2020
with Independent Auditor's Report

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Financial statements

December 31, 2020

Contents

Independent auditor’s report on financial statements 1

Audited financial statements

Statement of financial position 4

Statement of surplus or deficit..... 5

Statement of comprehensive surplus 6

Statement of changes in net assets 7

Statement of cash flows 8

Notes to financial statements 9

Independent auditor's report on financial statements

To the
Board of Trustees and Directors of
Instituto de Pesquisa Ambiental da Amazônia - IPAM
Brasília - DF

Opinion

We have audited the financial statements of Instituto de Pesquisa Ambiental da Amazônia - IPAM ("Institute"), which comprise the statement of financial position as at December 31, 2020, and the statements of surplus or deficit, of comprehensive surplus, of changes in net assets, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as at December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil applicable to nonprofit entities (ITG 2002 (R1)).

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 statements section of our report. We are independent of the Institute in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and 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 audit opinion.

Other matters

Audit of corresponding figures

The Institute's financial statements for the year ended December 31, 2019 were audited by another independent auditor who issued a report on July 2, 2020 with an unmodified opinion on these financial statements.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease its operations, or has no realistic alternative but to do so.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil applicable to nonprofit entities (ITG 2002 (R1)), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 these financial statements.

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. We also:

- Identified and assessed the risks of material misstatement of the financial statements, 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Institute's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded 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 Institute'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 statements 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 report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent 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.

Brasília, July 8, 2021.



Alexandre Dias Fernandes
Accountant CRC DF-012460/O-2

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of financial position
December 31, 2020 and 2019
(In reais)

	Note	12/31/2020	12/31/2019
Assets			
Current assets			
Cash and cash equivalents	4	3,425,745	1,201,630
Project-related funds	5	11,089,715	9,478,564
Advances for projects	6	1,033,263	1,660,489
Taxes recoverable	7	4,369	225,239
Advances granted	8	112,617	69,910
		<u>15,665,709</u>	<u>12,635,832</u>
Noncurrent assets			
Property and equipment	9	200,138	200,638
		<u>200,138</u>	<u>200,638</u>
Total assets		<u>15,865,847</u>	<u>12,836,470</u>
Liabilities			
Current liabilities			
Social and labor obligations	10	2,578,589	1,786,977
Tax obligations		12,503	161,317
Obligations with suppliers		174,329	432,100
Obligations with projects	11	11,607,067	10,296,046
Other liabilities		34,314	-
		<u>14,406,802</u>	<u>12,676,440</u>
Net assets			
Corporate assets	15	160,029	(589,190)
Surplus for the year		1,299,016	749,220
		<u>1,459,045</u>	<u>160,030</u>
Total liabilities and net assets		<u>15,865,847</u>	<u>12,836,470</u>

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of surplus or deficit
Years ended December 31, 2020 and 2019
(In reais)

	Note	2020	2019
Net revenue		2,542,530	1,734,817
Administrative fee	16	2,347,499	1,709,717
Individual donations		195,031	25,100
Operating expenses		(1,536,587)	(1,034,319)
Salaries and social charges	17	(1,065,529)	(1,068,557)
Consulting and services	18	(125,822)	(177,078)
Travel expenses		(17,778)	(153,692)
Expenses with utilities and rental	19	(239,139)	(137,269)
Depreciation		(40,135)	(37,545)
General expenses	20	(468,366)	(328,933)
Provision for project completion	21	(968,904)	(30,180)
Gains on project completion	21	1,177,023	1,028,748
Other operating income (expenses), net		212,063	(129,813)
Finance income (costs), net		293,073	48,721
Finance income		336,903	118,238
Finance costs		(43,830)	(69,517)
Surplus from own operations		1,299,016	749,220
Surplus from operations with partners			
Project revenues	11	19,524,423	18,312,653
Project costs		(19,524,423)	(18,312,653)
Salaries and social charges		(10,766,877)	(9,610,027)
Consulting services		(3,891,464)	(2,549,738)
Travel expenses		(542,669)	(2,155,420)
Technical partnerships		(2,919,670)	(1,507,940)
Provision for write-off of project assets		(93,868)	(1,414,880)
Other costs		(1,309,875)	(1,074,648)
Surplus for the year		1,299,016	749,220

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of comprehensive surplus
Years ended December 31, 2020 and 2019
(In reais)

	<u>2020</u>	<u>2019</u>
Surplus for the year	<u>1,299,016</u>	<u>749,220</u>
Other comprehensive surplus	-	-
Total comprehensive surplus for the year	<u>1,299,016</u>	<u>749,220</u>

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of changes in net assets
 Years ended December 31, 2020 and 2019
 (In reais)

	Corporate assets	Accumulated surplus (deficit)	Total
Balance at December 31, 2018	<u>(156,276)</u>	<u>(432,914)</u>	<u>(589,190)</u>
Allocation of accumulated deficit	(432,914)	432,914	-
Surplus for the year	-	749,220	749.220
Balance at December 31, 2019	<u>(589,190)</u>	<u>749,220</u>	<u>160,030</u>
Allocation of accumulated surplus	749,220	(749,220)	-
Surplus for the year	-	1,299,016	1.299.016
Balance at December 31, 2020	<u>160,030</u>	<u>1,299,016</u>	<u>1,459,046</u>

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of cash flows

Years ended December 31, 2020 and 2019

(In reais)

	<u>2020</u>	<u>2019</u>
Surplus for the year	1,299,016	749,220
Adjustments:		
Depreciation	40,135	37,545
Disposal of property and equipment	(60,250)	-
Gains on project completion, net	(208,119)	(998,567)
Provision for contingencies	-	(86,222)
 (Increase) decrease in assets		
Project-related funds	(1,611,151)	(5,676,430)
Advances from projects	627,226	(687,894)
Taxes recoverable	220,870	(225,093)
Advances granted	(42,707)	16,542
Other receivables	-	2,608
 Increase (decrease) in liabilities		
Social and labor obligations	646,524	100,969
Tax obligations	(3,728)	(21,010)
Obligations with suppliers	(202,244)	165,454
Unrealized revenue	1,519,140	6,986,051
Other liabilities	(21,213)	38,380
Net cash flows from operating activities	<u>2,203,499</u>	<u>401,553</u>
 Cash flows from investing activities		
Acquisition of P&E	(135,960)	(1,457,764)
Write-off of property and equipment	156,576	1,431,847
Net cash flows from (used in) investing activities	<u>20,616</u>	<u>(25,917)</u>
 Net increase in cash and cash equivalents	<u>2,224,115</u>	<u>375,637</u>
 Cash and cash equivalents at beginning of year	1,201,630	825,993
Cash and cash equivalents at end of year	3,425,745	1,201,630

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements
Year ended December 31, 2020
(In reais, unless otherwise stated)

1. Operations

Instituto de Pesquisa Ambiental da Amazônia – IPAM (“Institute” or “IPAM”) is a nonprofit, private organization founded in 1995 with the mission of contributing to the process of development of the Amazon that meets the social and economic aspirations of the population, while preserving the ecological functions of the region's ecosystems. The activities carried out by IPAM are structured into four strategic pillars:

Social and environmental governance - strengthen the creation and implementation of public policies, social groups and institutions that support the improvement of management and sustainable use of natural resources.

Economic incentives for sustainability - promote financing initiatives and market mechanisms to strengthen social and environmental governance and sustainable production.

Strengthening of sustainable productive activities – support rural production that optimizes land use, maintains the integrity of natural resources, and promotes food and income security.

Social and environmental vulnerability and adaptation - assess the vulnerability and potential of environmental resilience to climate change and of public policies to propose mitigation and adaptation strategies.

Administrative operation – IPAM’s operations processed over 6,000 requests (payment processes, requests for tickets, daily allowances, refunds, project implementation, requests for the Personnel Department, air tickets, etc.) to manage the 69 projects fulfilled in 2020 (79 projects in 2019).

The funds for accomplishment of the Institute's mission are transferred by third parties, which finance the performance of the projects.

The Institute is exempt from taxation on assets, income and services, given that it is a private nonprofit organization. Furthermore, for being a private nonprofit organization, surplus is not distributed and is added to corporate assets at the year end.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements
Year ended December 31, 2020
(In reais, unless otherwise stated)

1. Operations (Continued)

Covid-19 impacts

In relation to the impacts of COVID-19, the Institute has adopted the following measures since the beginning of the pandemic, aiming at the safety of its employees, the continuity of its operations and ensuring the normal flow of projects:

- Cancellation of international and domestic trips and, as of October, a travel protocol was drawn up;
- Replacement of visits and in-person meetings with funders, partners and communities by videoconferences or phone calls;
- We opted for remote work (home office) for employees, following the Ministry of Health's guidance.

As regards project monitoring, management closely monitors the financial performance of the invested funds. However, the Institute informs that even in relation to indicators and data for 2020, no significant impacts were observed on its operations and, consequently, on the financial statements, as a result of the COVID-19 pandemic.

Lastly, despite the high volatility in the financial markets, IPAM counts on a robust liquidity position. Therefore, at this point, there are no impacts that could materially impair the existing figures included in the financial statements.

2. Basis of preparation and presentation of the financial statements

The Institution's financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise ITG 2002 (R1) and the accounting pronouncements, guidance and interpretations issued by the Brazilian FASB (CPC) and approved by Brazil's National Association of State Boards of Accountancy (CFC).

The significant information specific to the financial statements, and only such information, is being disclosed, and corresponds to the information used in management of the Company's operations.

The issue of the financial statements was approved by the Board of Trustees on July 8, 2021.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements
Year ended December 31, 2020
(In reais, unless otherwise stated)

2. Basis of preparation and presentation of the financial statements (Continued)

2.1. Functional and presentation currencies

The items included in the financial statements are measured using the currency of the primary economic environment in which the Institute operates (functional currency). The financial statements were prepared and are presented in Brazilian reais, which is the Institution's functional currency.

2.2. Going-concern statement

Management assessed the Institution's ability to continue as a going concern and is convinced that it has the resources required to continue operating in the future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt as to the ability to continue as a going concern. Accordingly, these financial statements were prepared on a going concern basis.

2.3. Use of estimates

The preparation of the financial statements in accordance with Brazilian accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported asset, liability, revenue and expense amounts. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates are revised and in any subsequent periods affected.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

3. Summary of significant accounting practices

3.1. Revenue recognition

Revenue is recognized on an accrual basis, to the extent the funds are invested in the Institute's projects and management, as determined by ITG 2002 (R1) – Nonprofit Entities.

Accounting pronouncement CPC 07 (R1) – Government Grants and Assistance determines that donations and grants should be recorded in surplus/deficit throughout the period in which the expenses intended to be offset are incurred and that, while the requirements for recognition of surplus/deficit are not met, the funds received should be recorded in a specific liability account.

3.2. Recognition of project expenses

Funds transferred by IPAM related to signed projects are recorded as project expenses at the time of the effective rendering of accounts. The rendering of accounts of associations related to the use of these funds in the projects is presented in up to six months as from the transfer date.

3.3. Accounting bookkeeping regime

Surplus/deficit is determined on an accrual basis. Income and expenses are recognized in surplus/deficit when the risks and rewards inherent in the services are transferred. Receivables and payables within one year as from December 31, 2020 were classified as current and amounts with maturities longer than one year were classified as noncurrent.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.4. Transactions in foreign currency

Transactions in foreign currency are translated into the Institution's functional currency at the exchange rates in force on the transaction dates. Monetary assets and liabilities denominated and calculated in foreign currencies on the date of disclosure are translated back to the functional currency at the exchange rate effective on such date. Differences in foreign currencies resulting from retranslation are recognized in surplus/deficit.

3.5. Financial instruments

Classification and measurement

The Institute classifies its financial assets into the following categories: measured at amortized cost and at fair value through profit or loss. Financial assets are classified according to the purpose for which they were acquired. Management determines the classification of the financial assets upon initial recognition.

Financial assets measured at amortized cost

Financial assets measured at amortized cost are maintained within the IPAM business model with the objective of receiving contractual cash flows, and the contractual terms that give rise to the cash flows are solely payment of principal and interest on the outstanding principal amount.

Financial assets measured at fair value through surplus or deficit

Financial assets measured at fair value through surplus or deficit are financial assets that are not measured at amortized cost or at fair value through other comprehensive surplus. They are usually held for active and frequent trading. The assets under this category are usually classified as current assets. Gains or losses arising from changes in fair value of financial assets measured at fair value through surplus or deficit are presented in liabilities and recognized in surplus or deficit.

Impairment

The Institute recognizes provision for expected credit loss on assets classified at amortized cost. This assessment occurs prospectively and is based on historical data and models built for such purposes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)
Year ended December 31, 2020
(In reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.5. Financial instruments (Continued)

Financial liabilities - initial recognition

Financial liabilities are initially recognized at fair value, plus transaction costs, as applicable.

Financial liabilities - subsequent measurement

- Amortized cost: these are recorded using the effective interest rate method, where gains and losses are recognized in the statement of surplus or deficit when the liabilities are written off or through an increase in the effective rate.
- Fair value through surplus or deficit: accounted for by recognizing the gain and loss in surplus or deficit for the period.

Derivative financial instruments

The Institute did not carry out transactions of a speculative nature in derivatives or any other risky assets, and does not have swap or similar instruments.

3.6. Cash and cash equivalents

These balances include cash, bank deposits and short-term investments readily convertible into a known cash amount, subject to insignificant risk of change in value. These are valued at acquisition cost, plus earnings that do not exceed the respective market values.

3.7. Project-related funds

The balances include cash on hand, bank deposits and short-term investments, the amounts of which are separated into accounts by project and allocated directly to the respective project.

3.8. Advances to projects

This account includes the amounts receivable from funders arising from partially or fully executed projects, which will be reimbursed after the rendering of accounts. At the end of each project, the existing risk of receiving the balance is assessed and, should the Institution confirm that the amount will not be reimbursed, the loss is recorded in the statement of surplus or deficit under the "Losses on project completion" account.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.9. Property and equipment

a) Recognition and measurement

The Institute's property and equipment includes items acquired through partnership contracts intended exclusively for execution of the projects. These are classified separately in noncurrent assets as "Assets with restricted use".

Assets with restricted use are recorded at the time of acquisition and, on this occasion, a contra-account in P&E is recorded against the provision for losses in the statement of surplus and deficit, recognizing the execution of the project.

Usually at the end of the project, the residual value of the item is recognized as revenue from donations and transferred to the Institute's property and, consequently, recorded as a property and equipment without restriction. This policy is applied when there is no contractual provision for donation of the items to third parties.

These are measured at historical acquisition or construction cost, less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenses directly attributable to acquisition of an asset.

Gains and losses on disposal of a property and equipment item are determined by comparing the proceeds from disposal with the residual book value of the item, and are recognized as Losses or gains on disposal of P&E, in the statement of surplus or deficit, as applicable.

b) Subsequent costs

Replacement cost of a P&E component is recognized in the item's book value when it is likely that the economic benefits added to the item will flow to the Institute and the cost may be reliably measured. The residual book value of the component that has been replaced by another is recognized in surplus or deficit for the period. Daily maintenance costs of property and equipment items are recognized in surplus or deficit as incurred.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.10. Depreciation and amortization

Depreciation and amortization are calculated on the depreciable or amortizable value, which is the cost of an asset, or another value that substitutes the cost over the useful life of the item.

Depreciation and amortization of the Institute's assets (assets with no restriction) are recognized in surplus or deficit on a straight-line basis with respect to the estimated useful life of each component of the item, as this is the method that best reflects the pattern of consumption of the future economic benefits embedded in the asset.

Depreciation and amortization of assets intended exclusively for the execution of projects (assets with restricted use) are accounted for in adjustment accounts of property and equipment and intangible assets. Depreciation and amortization are carried out using the straight-line method over the estimated useful life of each item.

The estimated useful lives for the current year are presented in Note 9.

Depreciation and amortization methods, the useful lives and the residual values are reviewed at each financial year end and adjustments, if any, are recognized as a change in accounting estimates.

3.11. Impairment of nonfinancial assets

The book values of the Institute's nonfinancial assets are reviewed at each reporting date to determine any indication of impairment. If any such indication exists, the asset's recoverable amount is determined. An asset's recoverable amount is the higher of the value in use and the fair value less costs to sell. Impairment losses are recognized when the book value of an asset exceeds its estimated recoverable amount. Losses in value, if any, are recognized in surplus or deficit.

Management did not identify any situation that could indicate impairment of its nonfinancial assets. Accordingly, it was not necessary to estimate the recoverable amount of assets.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.12. Obligations with projects

This account records the obligations to funders arising from financial resources received by the Institute and not yet applied in the execution of the projects are recorded. Revenues are recognized in surplus or deficit as the projects are executed. The positive balances of completed projects, which do not contain a provision for the return of resources to funders, are written off as gains in the "Gains on project completion" account, in surplus or deficit.

3.13. Contracts to be executed

The Institute records all the contracts signed with funders, monitoring the contracted amounts, the projects effectively executed, and the balances to be executed for each project. This group of accounts is used solely for monitoring of effective contracts, execution and balances of contracts to be executed, having no effect on the financial statements.

3.14. Employee benefits

Obligations arising from short-term employee benefits are measured on an undiscounted basis and are incurred as expenses as the related service is provided.

3.15. Provisions

General

A provision is recognized as a result of a past event. A provision is recognized if the Institute has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic resources will be required to settle the obligation.

Civil, tax and labor contingencies

Provisions for civil, tax and labor contingencies related to legal and administrative proceedings are recognized when the Institute has a present legal or constructive obligation as a result of past events, it is possible to reliably estimate the amounts, and the settlement is likely to occur. Assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, the most recent court rulings and their relevance in the legal system, as well as the evaluation of external legal advisors.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.16. Other rights and obligations

The other current and noncurrent assets and liabilities that are subject to monetary variation or exchange differences under legislation or contractual provisions are restated based on the indices provided for in the respective provisions, in order to reflect the amounts on the date of the financial statements.

3.17. Administrative fee

The administrative fee is a percentage of the direct cost of the project defined in a contract that ensures the operation of the administrative department of IPAM. The administrative fee is recognized at the proportion of 25% at the beginning of the project, when most of the administrative expenses for execution of the agreements incur, and the remaining 75% are recognized based on execution of the project - according to the cost incurred (financial execution) of the project.

3.18. Tax exemptions and benefits of IPAM

As a nonprofit scientific entity, IPAM is subject to tax exemptions and benefits, such as:

- Income tax (IRPJ)
- Social contribution tax on net profit (CSLL)
- Contribution tax on gross revenue for social security financing (COFINS) on own revenues
- Service tax (ISSQN) on own revenues

3.19. Determination of surplus or deficit

Revenues and expenses are calculated on an accrual basis, according to accounting practices adopted in Brazil. As from 2018, IPAM adopted the recommendations of ITG 2002, issued by the Brazilian National Association of State Boards of Accountancy (CFC), which determines that project expenses and revenues be allocated to surplus or deficit.

Lease

CPC 06 (R2) – Leases became effective in 2019 and determines that lessees are required to recognize the liability of future payments and the right to use the leased asset for practically all leases, including operating leases. Certain short-term or low value leases may fall outside the scope of this new standard. The Institute carried out an evaluation of its agreements and did not identify any material impacts from adoption of this standard on the financial statements.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)
Year ended December 31, 2020
(In reais, unless otherwise stated)

4. Cash and cash equivalents

Cash and cash equivalents of the Institute comprise the following:

	12/31/2020	12/31/2019
Fixed fund	3,971	10,592
Banks	598,581	558,342
Short-term investments	2,823,193	632,696
	3,425,745	1,201,630

Short-term investments in the portfolio for the year refer to fixed income securities remunerated based on the variation of 96% to 100% of the Interbank Deposit Certificate (CDI), depending on the bank.

The Institute received funds at the end of 2019 that were kept in a current account and invested only at the beginning of 2020.

5. Project-related funds

Project-related funds are restricted to application in projects, according to contractual provisions. There are cases in which, contractually, the yield is required to be applied to the project activities, while in other cases, the yield is reversed as administrative income for the Institute.

	12/31/2020	12/31/2019
Banks	1,156,407	2,405,988
Short-term investments	9,933,308	7,072,576
	11,089,715	9,478,564

Short-term investments in the portfolio for the year refer to fixed income securities remunerated based on the variation of 96% to 100% of the Interbank Deposit Certificate (CDI), depending on the bank.

6. Advances for projects

These include amounts receivable referring to contracts already executed, for which the funds from donors will be transferred to the Institute after rendering of accounts.

	12/31/2020	12/31/2019
Funds from foreign private entities	592,862	941,738
Funds from foreign public entities	327,721	64,255
Funds from domestic private entities	112,680	270,559
Funds from domestic public entities	-	383,937
	1,033,263	1,660,489

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

7. Taxes recoverable

	12/31/2020	12/31/2019
ISS	1,502	-
PIS	146	4,755
COFINS	2,477	1,539
Social security tax (INSS)	187	146,182
Withholding Income Tax (IRRF) on payroll	-	72,763
Withholding IRPJ and CSLL	57	-
	<u>4,369</u>	<u>225,239</u>

The balances in 2019 included withholdings and overpaid amounts that were offset in 2020.

8. Advances granted

	12/31/2020	12/31/2019
Advances to employees (a)	94,417	42,603
Travel advances (b)	1,560	5,556
Corporate card (c)	15,290	16,321
Advances to suppliers	1,350	5,430
	<u>112,617</u>	<u>69,910</u>

(a) Advances related to vacation pay, requested by employees for vacation taken in January. The increase in 2020 was due to an increase in the number of employees who requested vacation in the current year.

(b) Advance made by the Institute for employees to cover travel expenses as needed, subject to rendering of accounts.

(c) The use of the card follows the same policy as advances granted to all employees. Each credit card issued is linked to a financial cardholder code for control of payments and rendering of accounts of the amounts used.

9. Property and equipment

These items are accounted for at acquisition cost. Depreciation and amortization are calculated using the straight-line method, considering the useful and economic life of the item at the rates below.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

9. Property and equipment (Continued)

The property and equipment groups are classified as in Note 3.9 and presented the following changes in the year:

IPAM assets – with no restriction on use (P&E)

		12/31/2019	Additions	Donation	Write-offs	12/31/2020
Changes in cost						
Leasehold improvements		1.310	-	-	-	1.310
Computer equipment		111.098	30.635	-	(4.140)	137.592
Electronic machinery and equipment		110.382	9.000	-	(4.150)	115.233
Furniture and fixtures		90.772	-	-	-	90.772
Facilities		20.375	-	-	-	20.375
Vehicles		192.000	-	-	(60.000)	132.000
Total cost		525.937	39.635	-	(68.290)	497.282
	Annual depreciation rate					
Changes in depreciation						
Leasehold improvements	50%	(1.310)	-	-	-	(1.310)
Computer equipment	17%	(82.052)	(11.063)	-	4.140	(88.975)
Electronic machinery and equipment	17%	(76.310)	(13.765)	-	4.150	(85.925)
Furniture and fixtures	20%	(10.617)	(8.649)	-	-	(19.266)
Facilities	20%	(2.216)	(2.038)	-	-	(4.254)
Vehicles	10%	(152.794)	(4.620)	-	60.000	(97.414)
Total depreciation		(325.299)	(40.135)	-	68.290	(297.144)
Total without restrictions		200.638	(499)	-	-	200.138

Project assets – with restriction on use (*) - expenses

		31/12/2019	Additions	Donation	Write-offs	31/12/2020
Changes in cost						
Constructions and buildings		30.004,00	-	-	-	30.004
Assets under construction		1.339.075	-	-	-	1.339.075
Computer equipment		478.628	94.717	-	-	573.345
Electronic machinery and equipment		348.217	1.608	-	(972)	348.853
Vehicles		253.400	-	-	(55.000)	198.400
Software		69.176	-	-	-	69.176
Total		2.518.500	96.325	-	(55.972)	2.558.853
	Annual depreciation rate					
Changes in depreciation						
Constructions and buildings	4%	(20.167)	(774)	-	-	(20.941)
Computer equipment	17%	(262.774)	(72.112)	-	-	(334.886)
Electronic machinery and equipment	17%	(213.629)	(46.341)	-	972	(258.998)
Vehicles	10%	(185.658)	(15.204)	-	55.000	(145.862)
Software	50%	(69.176)	-	-	-	(69.176)
Total		(751.404)	(134.431)	-	55.972	(829.863)
Total with restricted use		1.767.096	(38.106)	-	-	1.728.890

(*) Items from projects with restricted use - shows the items acquired through contracts for exclusive use in the execution of projects. Goods with restricted use are recorded at the time of acquisition and then recorded as an expense in surplus or deficit, recognizing the execution of the project. There are contractual provisions for certain projects that establish that after their completion, the assets acquired, through their resources, will be donated or will be reversed to the Institution, as explained in note 3.9.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

10. Social and labor obligations

	12/31/2020	12/31/2019
Salaries, vacation pay and 13 th monthly salary	1,355	7,188
Provision for Unemployment Compensation Fund (FGTS)	70,202	62,678
Provision for Social Security Tax (INSS)	187,629	199,787
Provision for Contribution Tax on Gross Revenue for Social Integration Program (PIS)	11,892	7,835
Accrued vacation pay and charges	1,297,817	783,475
Accrued 13 th monthly salary	173	-
Provision for 40% fine on total deposits of the FGTS	805,183	530,732
Other charges	204,338	195,282
Total	2,578,589	1,786,977

11. Obligations with projects

	12/31/2020	12/31/2019
Funds from public consulting entities	62,770	-
Funds from domestic public entities	-	10,935
Funds from private consulting entities	-	4,808,864
Funds from foreign private entities	3,368,575	839,372
Funds from domestic private entities	2,890,199	4,038,692
Funds from foreign public entities	5,204,622	598,183
Funds from domestic public entities	80,901	-
Total	11,607,067	10,296,046

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

11. Obligations with projects (Continued)

Obligations with projects comprise the amounts received referring to the projects approved in contracts with funders, less the respective expenses of projects executed up to the statement of financial position date. The balances represent the Institute's obligation to execute the projects in the future.

At the end of each period, financial balances of completed projects for which the rendering of accounts has already been approved are identified. For balances where there is no estimated return, the gain is recognized in surplus or deficit. These situations occur mainly due to exchange differences (the amount in reais is expected to be higher or lower than the amount effectively received), to completion of projects before the expected term, or because the financial yield was not used in the project.

Changes in obligations with projects are as follows:

	Balance in 2019	Received	Executed	Adm. fee	Gain/loss	Balance in 2020
Funds from private consulting entity	-	2,034	-	(1,704)	(330)	-
Funds from public consulting entities	-	168,000	(80,866)	(24,458)	-	62,676
Funds from foreign private entities	4,814,692	10,187,516	(11,946,680)	(1,396,524)	865,327	2,524,331
Funds from domestic private entities	833,544	5,255,937	(2,520,665)	(686,580)	103,687	2,985,923
Funds from foreign public entities	4,038,692	6,548,428	(4,729,097)	(219,317)	(434,084)	5,204,622
Funds from domestic public entities	609,118	812,909	(247,115)	(18,916)	(326,481)	829,515
	10,296,046	22,974,824	(19,524,423)	(2,347,499)	208,119	11,607,067

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

12. Funding and execution of resources classified by financing source

Description	Foreign entities	Domestic private entities	Domestic public entities	Consulting	Provision for adjustment - completion	Total
Balance receivable in 2019	36,588,401	2,520,390	2,395,901	912,713	-	42,417,405
Budget 2020	11,037,321	5,566,767	2,080,379	355,000	-	19,039,467
Budget adjustment	-	-	-	(912,713)	-	(912,713)
Received	(14,407,485)	(5,564,229)	(2,268,628)	(168,000)	-	(22,408,342)
Balance in 2020	33,218,237	2,522,928	2,207,652	187,000	-	38,135,817
Balance to execute in 2019	42,856,868	3,309,494	2,594,966	2,291,533	-	51,052,861
Budget	11,037,321	5,566,767	2,080,379	355,000	-	19,039,467
Adjustment	5,881,100	(1,751,270)	(2,645,633)	(1,349,764)	-	134,433
Execution with gains/losses	(18,377,441)	(3,112,300)	(278,442)	(126,317)	-	(21,894,500)
Balance at 12/31/2020	41,397,848	4,012,691	1,751,270	1,170,452	-	48,332,261

The table shows that in 2020, the amount of R\$19,039,468 was raised in new contracts to be executed in the first year of the project. Projects were executed in the total amount of R\$21,894,500 and the budgeted balance to be executed for the following years totals R\$48,332,262. This information is merely budgetary and therefore is not part of the balances included in the financial statements. Accordingly, it was not audited by the independent auditors.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

13. Legal proceedings and contingent liabilities

The Institute is not party to ongoing legal and administrative proceedings filed with courts and government agencies, involving labor, civil and other matters.

14. Transactions with related parties

Key management personnel compensation

Key management personnel compensation, including salaries, fees and short-term variable benefits, totaled R\$939,416 for the year ended December 31, 2020 (R\$747,196 in 2019).

15. Net assets

Net assets of IPAM comprises corporate assets substantially derived from surplus accumulated from previous years and the current-year surplus. Net assets as of December 31, 2020 total R\$1,459,046 (R\$160,030 as of December 31, 2019).

16. Revenue from administrative fee

A percentage of project resources is contractually allocated to meet the Institute's administrative cost, which varies from 7% to 20% of the amount of direct project costs - representing 6.5% to 16.67% of the total contract value (see Note 3.17 for further details).

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

16. Revenue from administrative fee (Continued)

	2020	2019
Funds from private consulting entities	-	1,145
Funds from foreign private entities	1,398,191	1,227,205
Funds from domestic private entities	686,580	194,411
Funds from foreign public entities	219,289	286,956
Funds from domestic public entities	43,439	-
Total	2,347,499	1,709,717

17. Salaries and social charges

	2020	2019
Salaries and payroll charges	(1,056,769)	(1,056,723)
Qualification	-	(1,884)
Tests	(1,509)	(242)
Subsidized transportation ticket	(7,251)	(9,707)
Total	(1,065,529)	(1,068,556)

18. Consulting and services

	2020	2019
Audit services	-	(30,468)
IT services	(11,284)	(19,571)
Legal services	(65,255)	(35,832)
Licensing services	(49,283)	(91,207)
Total	(125,822)	(177,078)

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

19. Expenses with utilities and services

	2020	2019
Water and sewage	(450)	(206)
Electricity	(11,348)	(12,817)
Telephone services	(10,359)	(49,271)
Maintenance services	(134,342)	(10,822)
Rent	(67,309)	(8,312)
Condominium fees	(2,456)	(16,990)
Equipment rental	(3,453)	(38,176)
Car rental	(9,422)	(675)
Total	(239,139)	(137,269)

In 2020, maintenance expenses refer to network, internet, cloud software, among other providers. Network maintenance expenses totaled R\$96,000.

20. General expenses

	2020	2019
Surveillance	(225)	-
Meals	(2,031)	(1,091)
Low-value items	(3,247)	(5,409)
Registry services	(206)	(2,680)
Fuel	(1,154)	(3,800)
Parties	-	(6,906)
Catering	(13)	(13,419)
Mail and pouch	(5,897)	(6,851)
Edition services	(12,000)	(15,750)
Printing and books	(4,460)	(866)
Office supplies	(5,166)	(7,758)
IT materials	(3,082)	(140)
Cleaning materials	(569)	(3,669)
Maintenance and repair materials	(1,845)	(3,664)
Tax fines	-	(4,523)
Magazine and publications	(431)	(159)
Delivery services	(1,067)	(1,754)
Individual-related services	(2,330)	(969)
Legal entity-related services	(396,718)	(246,400)
Other expenses	(4,799)	(3,124)
Field meals	(18,095)	-
Field materials	(5,031)	-
Total	(468,366)	(328,932)

General costs increased in 2020, with expenses incurred in consulting for the administration area, of R\$314,634, and accounting area, of R\$43,055.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)
Year ended December 31, 2020
(In reais, unless otherwise stated)

21. Gains on project completion, net

	2020	2019
Gains on funds from foreign private entities	865,298	197,410
Gains on funds from domestic private entities	103,867	801,158
Gains on funds from private consulting entities	(329)	-
Loss on funds from domestic public entities	(326,481)	-
Loss on funds from foreign public entities	(434,236)	-
Total, net	208,119	998,568

Any gains or losses on the completion of projects consider the final calculated amount related to (i) exchange gains/losses between the amount received and executed, (ii) net finance income (costs), including the difference (positive or negative) between income from investment of financial resources and finance costs, such as tariffs and fees, and/or (iii) execution above or below the original budget, which contractually, at the end of the project, should be supported (upon loss) or absorbed (upon gain) by the Institute.

22. Financial instruments

The Institute's financial instruments receivable and payable as of December 31, 2020 are recorded in the statement of financial position at amounts compatible with the market. These are described below, together with the criteria, assumptions and limitations used in the calculation of market values:

a) *Short-term investments*

The amounts recorded approximate market values due to the short-term maturity of these instruments. They are measured at fair value.

b) *Project-related funds*

The amounts recorded approximate market values due to the short-term maturity of these instruments. They are measured at amortized cost.

c) *Advances*

Advances are measured at amortized cost using the effective rate method.

d) *Other financial instruments receivable and payable*

The estimated realizable values of financial assets and liabilities were determined using available market information and appropriate valuation methodologies. All financial instruments receivable and payable are measured at amortized cost.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

22. Financial instruments (Continued)

Financial risk factors

All the Institute's transactions are carried out with financial institutions that do not have high credit risk, as determined by renowned rating agencies, which minimizes the risk. The Institute sets up provision in an amount deemed sufficient to cover possible risks of making the advances; therefore, the risk of incurring losses resulting from the difficulty in receiving billed amounts is measured and accounted for. The key market risk factors that affect the Institute's business are as follows:

Credit risk

Credit risk is managed by the Institution and arises from cash and cash equivalents, deposits in banks and other financial institutions, as well as credit exposures from contracts and terms of cooperation. For banks and other financial institutions, only transactions with large, low-risk entities are accepted. Individual creditor risk limits are determined based on internal ratings according to the historical relationship.

Interest rate risk

The Institute is exposed to fluctuations in the Interbank Deposit Certificate (CDI), which is the reference for remuneration of its financial investments. The change in value is insignificant in operations.

Liquidity risk

The main risk related to liquidity refers to monitoring of the funds received in advance and their use in carrying out projects. This liquidity is managed by monitoring the resources and obligations, as shown below:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Project-related funds (Note 5)	11,089,715	9,478,564
Advances for projects (Note 6)	1,033,263	1,660,489
Revenue to be executed (Note 11)	(11,607,067)	(10,296,046)
Net exposure	515,911	843,007

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

Year ended December 31, 2020

(In reais, unless otherwise stated)

22. Financial instruments (Continued)

Sensitivity analysis

To check the sensitivity of the indices of the debts to which the Institute is exposed as of December 31, 2020, three different scenarios were estimated, considering the total financing volume. Based on these consolidated amounts as of December 31, 2020, the Probable Scenario for the 12 subsequent months (Scenario I) was defined. From Scenario I (Probable), an increase of 25% (Scenario II) and 50% (Scenario III) is applied on the projections of the restatement indices of each contract.

For each scenario, gross finance costs were calculated, not taking into consideration the taxes levied and the maturity flow of each contract scheduled over 2020 and following years. The base date used was December 31, 2020, with projection of the restatement indices of each contract for the subsequent 12 months and assessment of their sensitivity in each scenario.

Risk	Probable scenario	Scenario II	Scenario III
	Dec/20	Dec/20	Dec/20
CDI – Financing investments	12,756,501	12,756,501	12,756,501
Projected finance income	242,374	182,418	121,187
Variation %	1.90%	1.43%	0.95%

23. Insurance coverage

Insurance coverage as of December 31, 2020 was contracted for the amounts indicated below, according to insurance policies, and complies with management's risk assessment:

Line	Effective period	Insured amount
Fire, lightning and other occurrences	02/19/2022	900,000
Electronic equipment	02/19/2022	105,000
Board of Trustees and Directors	12/06/2021	4,000,000
Vehicles	07/08/2021	100,000
Bodily injuries	Maturity every 30 days	100,000
