

Financial statements

Instituto de Pesquisa Ambiental da Amazônia - IPAM

December 31, 2022
with Independent Auditor's Report

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Financial statements

December 31, 2022

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

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 (the "Institute"), which comprise the statement of financial position as at December 31, 2022, and the statements of surplus or deficit, of comprehensive surplus, of changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as at December 31, 2022, and its financial performance and cash flows for the year then ended in accordance with the 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, 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.

Responsibilities of the executive board and those charged with governance for the financial statements

The executive board 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 the executive board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the executive board 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 the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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 the executive board.
- Concluded on the appropriateness of the executive board'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, May 25, 2023.

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

A handwritten signature in black ink, appearing to read 'Alexandre Dias Fernandes', is written over the printed name.

Alexandre Dias Fernandes
Accountant CRC-DF-012460/O

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of financial position
December 31, 2022 and 2021
(in Reais)

	Note	12/31/2022	12/31/2021
Assets			
Current assets			
Cash and cash equivalents	4	8,647,368	5,948,791
Project-related funds	5	17,201,906	15,536,640
Advances to projects	6	3,220,782	1,976,396
Taxes recoverable	7	18,715	8,215
Advances granted	8	229,530	165,121
		<u>29,318,301</u>	<u>23,635,163</u>
Noncurrent assets			
Property and equipment	9	337,267	204,021
		<u>337,267</u>	<u>204,021</u>
Total assets		<u>29,655,568</u>	<u>23,839,184</u>
Liabilities and net assets			
Current liabilities			
Social and labor obligations	10	3,929,485	3,070,861
Tax obligations		39,381	18,105
Obligations with project-related suppliers		1,076,516	494,888
Obligations with suppliers		158,916	-
Obligations with projects	11	18,378,189	16,844,402
Other liabilities		73,196	37,621
		<u>23,655,683</u>	<u>20,465,877</u>
Net assets	15		
Corporate assets		3,373,307	1,459,045
Surplus for the year		2,626,578	1,914,262
		<u>5,999,885</u>	<u>3,373,307</u>
Total liabilities and net assets		<u>29,655,568</u>	<u>23,839,184</u>

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of surplus or deficit
Years ended December 31, 2022 and 2021
(in Reais)

	Note	2022	2021
Net revenue		4,400,150	3,534,253
Administrative fee	16	3,491,605	3,398,510
Individual donations		908,545	135,743
Operating expenses		(2,592,979)	(2,097,944)
Salaries and social charges	17	(1,659,424)	(1,444,386)
Consulting and services	18	(438,339)	(493,402)
Travel expenses		(390,308)	(82,389)
Expenses with utilities and services	19	(198,600)	(145,059)
Depreciation		(50,958)	(39,688)
General expenses	20	(623,475)	(179,442)
Provision for project completion	21	(8,473)	(183,152)
Gains on project completion	21	476,640	62,785
Other operating income (expenses), net		299,958	406,789
Finance income (costs), net		819,407	477,953
Finance income	22	860,334	555,084
Finance costs		(40,927)	(77,131)
Surplus from own operations		2,626,578	1,914,262
Surplus from operations with partners		-	-
Project revenues		35,923,340	25,280,651
Project costs		(35,923,340)	(25,280,651)
Salaries and social charges		(18,234,917)	(13,715,945)
Consulting services		(2,486,724)	(6,809,283)
Travel expenses		(3,513,057)	(826,536)
Technical partnerships		(4,394,839)	(321,816)
Provision for write-off of project assets		(496,065)	(710,648)
Other costs		(1,904,199)	(1,571,854)
Expenses – materials		(1,030,507)	(657,769)
Environmental services		(3,863,032)	(666,800)
Surplus for the year		2,626,578	1,914,262

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of comprehensive surplus
Years ended December 31, 2022 and 2021
(in Reais)

	Note	2022	2021
Surplus for the year		2,626,578	1,914,262
Other comprehensive surplus		-	-
Total comprehensive surplus for the year		2,626,578	1,914,262

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of changes in net assets
Years ended December 31, 2022 and 2021
(in Reais)

	Corporate assets	Accumulated surplus (deficit)	Total
Balance at December 31, 2020	160,029	1,299,016	1,459,045
Allocation of accumulated surplus	1,299,016	(1,299,016)	-
Surplus for the year	-	1,914,262	-
Balance at December 31, 2021	1,459,045	1,914,262	3,373,307
Allocation of accumulated surplus	1,914,262	(1,914,262)	-
Surplus for the year	-	2,626,578	-
Balance at December 31, 2022	3,373,307	2,626,578	5,999,885

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Statement of cash flows

Years ended December 31, 2022 and 2021
(in Reais)

	2022	2021
Surplus for the year	2,626,578	1,914,262
Adjustments:		
Depreciation	50,958	39,688
Gains/losses on contract termination	-	120,367
Property and equipment received as donation	(168,654)	-
Increase in assets		
Restricted funds	(1,665,266)	(4,446,925)
Advances from projects	(1,244,386)	(943,133)
Taxes/charges recoverable	(10,500)	(3,846)
Advances granted	(64,409)	(52,504)
Increase in liabilities		
Social and labor obligations	858,624	492,272
Tax obligations	21,276	5,602
Obligations with suppliers	740,544	320,559
Contracts to be executed	1,533,787	5,116,968
Other liabilities	35,575	3,308
Net cash flows used in operating activities	2,714,127	2,566,618
Cash flows from investing activities		
Acquisition of P&E	(15,550)	(44,122)
Write-off of property and equipment	-	550
Cash flows used in investing activities	(15,550)	(43,572)
Net increase (decrease) in cash and cash equivalents	2,698,577	2,523,046
Cash and cash equivalents at beginning of year	5,948,791	3,425,745
Cash and cash equivalents at end of year	8,647,368	5,948,791

See accompanying notes.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements

December 31, 2022

(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 three strategic pillars:

Sustainable family farming – The institute seeks to generate impact on the environment on a regular basis, contributing to increase farmers’ income, and to ensure food security and the end of deforestation; public policies aimed at structured and operational family farming; and the recognition of family farmers as a key segment for the sustainable development of the Amazon, in order to reduce the impacts of climate change.

Protected natural territories – The Institute seeks to create an impact with a consolidated system of protected areas (with governance, shared management, investments, quality of life and food and land security); by expanding the system of protected areas via conservation use of areas not yet designated in the Amazon and the *Cerrado*; by implementing climate change adaptation strategies for protected areas; and by means of a society that is aware of the role played by the protected areas in preserving and generating ecosystem services.

Low carbon agriculture – The Institute seeks to generate impact by implementing zero deforestation, with a strengthened low-carbon economy, economically valued forest assets and consumption patterns that contribute to zero deforestation adopted by society.

Administrative operation – IPAM’s operations processed over 8,918 requests (payment processes, requests for tickets, daily allowances, refunds, project implementation, requests for the Personnel Department, air tickets, etc.) to manage projects executed in 2022 (95 projects).

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.

The non-financial information included in these financial statements, such as number of payment requests, tickets, daily allowances, number of projects, among other items, have not been audited/reviewed by the independent auditors.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

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.

These financial statements were approved for issue by the General Meeting on May 25, 2023.

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)

December 31, 2022

(In reais, unless otherwise stated)

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

2.3. Use of estimates (Continued)

Information about uncertainties, assumptions and estimates that have a significant risk of requiring a material adjustment in the next financial year and critical judgments referring to the accounting policies adopted that have an impact on the amounts recognized in the financial statements include:

- The useful life and calculation of depreciation of property and equipment (Note 9);
- Impairment of nonfinancial assets;
- Uncertainties about the assumptions relating to provisions for civil, tax and labor contingencies and contingent liabilities (Note 13).

The definitive amounts of transactions involving these estimates are determined only upon their realization or settlement.

3. 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

Project expenses are recognized as incurred upon presentation of an accounting document (bills, invoices, receipts, etc.).

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

3. Significant accounting practices (Continued)

3.2. Recognition of project expenses (Continued)

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.

Recognition of project expenses

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, 2022 were classified as current and amounts with maturities longer than one year were classified as noncurrent.

3.3. 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 at the exchange rate effective on such date. Differences in foreign currencies resulting from translation are recognized in surplus/deficit.

3.4. Financial instruments

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 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.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

3. Significant accounting practices (Continued)

3.4. Financial instruments (Continued)

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.

3.5. 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.

3.6. 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.

3.7. 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.

3.8. 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.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

3. Significant accounting practices (Continued)

3.8. Property and equipment (Continued)

a) Recognition and measurement (Continued)

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.

3.9. 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.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

3. Significant accounting practices (Continued)

3.9. Depreciation and amortization (Continued)

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.

3.10. 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.

3.11. 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.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

3. Significant accounting practices (Continued)

3.12. 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.

3.13. 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.

3.14. 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.

3.15. 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.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

3. Significant accounting practices (Continued)

3.16. 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.

3.17. 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

3.18. 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)

December 31, 2022

(In reais, unless otherwise stated)

4. Cash and cash equivalents

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 2022 that were kept in a current account and invested only at the beginning of 2023.

	12/31/2022	12/31/2021
Cash	336	3,971
Banks	1,229,183	981,216
Investment	7,417,849	4,963,604
	8,647,368	5,948,791

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.

	12/31/2022	12/31/2021
Restricted funds		
Banks	389,467	4,860,518
Investment	16,812,439	10,676,122
	17,201,906	15,536,640

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.

	12/31/2022	12/31/2021
Funds from foreign private entities	1,312,585	1,111,907
Funds from foreign public entities	818,651	211,833
Funds from domestic private entities	1,089,546	652,656
	3,220,782	1,976,396

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

7. Taxes recoverable

	12/31/2022	12/31/2021
ISS	3,906	3,906
PIS	146	146
COFINS	14,419	3,919
Social security tax (INSS)	187	187
Withholding IRPJ and CSLL	57	57
	18,715	8,215

The balances in 2022 included withholdings and overpaid amounts that were offset in 2023.

8. Advances granted

	12/31/2022	12/31/2021
Advances to employees (a)	215,946	159,428
Travel advances (b)	9,033	4,343
Advances to suppliers (c)	51	1,350
Contract security deposit (d)	4,500	-
	229,530	165,121

(a) Advances related to vacation pay, requested by employees for vacation taken in January. The increase in 2022 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.

(d) Security deposit of a contract entered into by the Institute and the lessee of the Santarém unit.

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)

December 31, 2022

(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:

		12/31/2021	Additions	Donation	12/31/2022
Property and equipment					
IPAM assets – with no restriction on use (P&E)					
Leasehold improvements		1,310	-	-	1,310
Computer equipment		147,965	8,041	-	156,006
Electronic machinery and equipment		121,766	7,509	-	129,275
Furniture and fixtures		93,413	-	-	93,413
Facilities		20,375	-	-	20,375
Vehicle		126,500	-	168,654	295,154
Total cost		511,329	15,550	168,654	695,533

	Annual depreciation rate (%)	12/31/2021	Additions	Donation	12/31/2022
Changes in depreciation					
Leasehold improvements	50	(1,310)	-	-	(1,310)
Computer equipment	17	(84,010)	(9,313)	-	(93,323)
Electronic machinery and equipment	17	(90,575)	(12,396)	-	(102,971)
Furniture and fixtures	20	(28,587)	(8,545)	-	(37,132)
Facilities	20	(6,292)	(2,038)	-	(8,330)
Vehicle	10	(96,534)	(18,666)	-	(115,200)
Total depreciation		(307,308)	(50,958)	-	(358,266)
Total, net		204,021	(35,408)	168,654	337,267

		12/31/2021	Additions	Donation	12/31/2022
Property and equipment					
Project assets – with restriction on use (*) – expenses (unaudited)					
Leasehold improvements		30,004	-	-	30,004
Computer equipment		768,824	173,758	-	942,582
Machinery and equipment		402,620	5,952	-	408,572
Vehicle		516,254	307,428	-	823,682
Assets under construction		-	9,000	-	9,000
Software		69,176	-	-	69,176
Total cost		1,786,879	496,138	-	2,283,016

	Annual depreciation rate (%)	12/31/2021	Additions	Donation	12/31/2022
Changes in depreciation					
Buildings	4	(21,715)	(774)	-	(22,489)
Computer equipment	17	(415,205)	(105,023)	-	(520,228)
Electronic machinery and equipment	17	(303,790)	(43,924)	-	(347,714)
Vehicle	10	(92,728)	(120,923)	-	(213,651)
Software	50	(69,176)	-	-	(69,176)
Total depreciation		(902,614)	(270,644)	-	(1,173,258)
Total, net		884,264	225,494	-	1,109,758

(*) 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)

December 31, 2022

(In reais, unless otherwise stated)

10. Social and labor obligations

	12/31/2022	12/31/2021
Salaries, vacation pay and 13 th month salary payable	17,476	38,689
Provision for Unemployment Compensation Fund (FGTS)	107,403	85,697
Provision for Social Security Tax (INSS)	316,301	254,798
Provision for PIS	18,028	13,982
Accrued vacation pay and related charges	1,859,193	1,517,736
Provision for 40% fine on total deposits of the FGTS	1,338,410	954,704
Other charges	272,674	205,255
	3,929,485	3,070,861

11. Obligations with projects

	12/31/2022	12/31/2021
Funds from public entities - consulting services	184,639	36,937
Funds from domestic public entities	-	226,539
Funds from foreign public entities	6,367,093	3,696,209
Funds from private entities - consulting services	206,286	18,596
Funds from domestic private entities	3,095,754	1,051,328
Funds from foreign private entities	6,675,445	11,814,793
Finance income	1,848,972	-
	16,529,217	16,844,402

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 finance income was not used in the project.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

11. Obligations with projects (Continued)

Changes in obligations with projects are as follows:

	12/31/2021	Received	Executed	Rate	Gain/loss	Income	12/31/2022	Opening rate
Funds from public entities								
- consulting services	36,937	616,310	(342,672)	(90,418)	(15,594)	-	204,563	(18,013)
Funds from domestic public entities	226,539	-	(43,672)	-	(182,867)	-	-	-
Funds from foreign public entities	3,696,209	15,707,111	(13,144,681)	(973,531)	-	454,102	5,739,210	(95,439)
Funds from private entities								
- consulting services	18,596	423,800	(176,807)	(37,007)	(5,150)	60	223,492	(16,625)
Funds from domestic private entities	1,051,328	9,553,300	(7,640,418)	(689,595)	(6,228)	218,463	2,486,850	(256,026)
Funds from foreign private entities	11,814,793	13,839,424	(14,575,089)	(1,701,054)	(258,329)	604,329	9,724,074	(182,272)
	16,844,402	40,139,945	(35,923,339)	(3,491,605)	(468,168)	1,276,954	18,378,189	(568,375)

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

12. Funding and execution of resources classified by financing source (unaudited)

	Foreign entities	Domestic private entities	Public entities	Consulting	Total
Balance in 2021	40,668,757	3,923,494	-	209,525	44,801,776
Budget	23,539,788	28,243,665	-	840,000	52,623,453
Budget adjustment	(1,355,626)	(354,250)	-	326,585	(1,383,291)
Received	(29,546,536)	(9,553,300)	-	(1,040,110)	
Balance at 12/31/2022	33,306,384	22,259,609	-	336,001	
Balance to execute in 2021	54,311,345	4,659,383	226,540	264,536	59,461,804
Budget	23,539,788	28,243,665	-	840,000	52,623,453
Adjustment	(3,089,983)	(436,616)	(226,540)	290,036	(3,463,103)
Execution with gains/losses	(30,652,683)	(8,562,780)	-	(667,648)	(39,883,111)
Balance at 12/31/2022	44,108,467	23,903,652	-	726,924	68,739,043

The table shows that in 2022, the amount of R\$52,623,453 was raised in new contracts to be executed over the contract period. Projects were executed in the total amount of R\$39,883,112 and the budgeted balance to be executed for the following years totals R\$59,510,768. 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.

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\$1,097,567 for the year ended December 31, 2022 (R\$948,945 in 2021).

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

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, 2022 total R\$5,599,885 (R\$3,373,307 as of December 31, 2021).

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).

	2022	2021
Funds from public entities - consulting services	90,418	-
Funds from foreign public entities	973,531	603,880
Funds from private entities - consulting services	37,007	-
Funds from domestic private entities	689,595	617,484
Funds from foreign private entities	1,701,054	2,177,146
	<u>3,491,605</u>	<u>3,398,510</u>

17. Salaries and social charges

	2022	2021
Salaries and payroll charges	(1,651,218)	(1,441,153)
Qualification	-	(1,216)
Tests	(3,602)	(2,017)
Subsidized transportation ticket	(4,604)	-
	<u>(1,659,424)</u>	<u>(1,444,386)</u>

18. Consulting and services

	2022	2021
Consulting services (a)	(8,000)	(298,891)
Audit services	(65,000)	(59,000)
IT services (b)	(101,447)	(2,461)
Legal services	(84,140)	(50,400)
Licensing services (b)	(179,752)	(82,650)
	<u>(438,339)</u>	<u>(493,402)</u>

(a) The decrease in expenses is due to the completion of certain consulting service agreements.

(b) The increase in certain accounts was due to contractual adjustments and, in some cases, reclassification of expenses during the year.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

19. Expenses with utilities and services

	12/31/2022	12/31/2021
Water and sewage	(141)	-
Electricity	(4,139)	(759)
Telephone services	(5,367)	(1,724)
Maintenance services	(124,446)	(134,349)
Rent	(59,856)	(4,387)
Condominium fees	(1)	(3,840)
Equipment rental	(4,560)	-
Car rental	(90)	-
	(198,600)	(145,059)

20. General expenses

General expenses	2022	2021
Surveillance	-	(440)
Meals	(60,931)	(5,485)
Low-value items	(15,885)	(1,584)
Registry services	(3,273)	(2,382)
Fuel	(21,523)	(8,109)
Catering	(2,584)	(457)
Mail and courier	(8,157)	(5,124)
Edition services	(4,950)	-
Printing and books	-	(30)
Office supplies	(6,269)	(15,561)
IT materials	(11,192)	(12,000)
Cleaning materials	(3,314)	(678)
Maintenance and repair materials	(19,981)	(2,861)
Magazine and publications	(16,868)	(349)
Delivery services	(5,915)	(4,458)
Individual-related services	-	(71,234)
Legal entity-related services	(89,816)	-
Other expenses	(37,824)	(36,198)
Field meals	-	(3,165)
Renovation services (a)	(146,228)	(9,060)
Taxes	(19,659)	-
Field materials	(4,121)	(267)
Other services	(21,344)	-
Construction and renovation materials (a)	(123,641)	-
	(623,475)	(179,442)

(a) The increase in expenses is due to the renovation of lodgings in the field paid by management.

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

21. Gains on project completion, net

	2022	2021
Funds from public entities - consulting services	15,594	-
Funds from domestic public entities	182,867	-
Funds from private entities - consulting services	5,150	-
Funds from domestic private entities	6,228	(100,203)
Funds from foreign private entities	258,328	(20,164)
	468,167	(120,367)

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 assets and liabilities as of December 31, 2022 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 fair value.

c) Advances

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

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

22. Financial instruments (Continued)

d) Other financial assets and liabilities

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

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:

	2022	2021
Project-related funds (Note 5)	17,201,906	15,536,640
Advances for projects (Note 6)	3,220,782	1,976,396
Revenue to be executed (Note 11)	(18,378,189)	(16,844,402)
	2,044,499	668,634

Instituto de Pesquisa Ambiental da Amazônia - IPAM

Notes to financial statements (Continued)

December 31, 2022

(In reais, unless otherwise stated)

22. Financial instruments (Continued)

d) Other financial assets and liabilities (Continued)

Sensitivity analysis

IPAM uses no third-party capital for project execution or administrative activities, reason why the Institute incurs no interest expenses. All funds received for executing projects are invested in Bank Deposit Certificates (CDB) whose yield, in 2022, was 99% of the Interbank Deposit Certificate (CDI).

To check the sensitivity of the indices to which the Institute is exposed as of December 31, 2022, three different scenarios were estimated, considering the total financing volume. Based on this amount, the Probable Scenario for the 12 subsequent months (Scenario I) was defined. From this scenario (Probable), an decrease of 25% (Scenario II) and 50% (Scenario III) is applied on the projections of the adjustment indices of each contract.

	Balance of short-term investments as at 12/31/2022 (R\$)	Projected finance income (R\$)		
		Scenario I (Probable)*	Scenario II	Scenario III
Without restriction	7,417,849	927,231	695,423	463,616
With restriction	16,812,439	2,101,555	1,576,166	1,050,777

(*) Considered the CDI projection for 2023 according to FOCUS/Bacen on 04/14/2023, which was 12.50% for the period.

23. Insurance coverage

Insurance coverage as of December 31, 2022 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	02/23/2024	1,300,000
Electronic equipment	02/23/2024	105,000
D&O	12/15/2023	5,000,000
Vehicles	03/15/2024	635,000
Bodily injury	Maturity every 30 days	1,422,546
