

AUDITED FINANCIAL STATEMENTS AND
REPORTS AND SCHEDULE REQUIRED BY
THE UNIFORM GUIDANCE

Puerto Rico Conservation Trust Fund
Year Ended December 31, 2020
With Report of Independent Auditors



Puerto Rico Conservation Trust Fund

Audited Financial Statements and
Reports and Schedule Required by the Uniform Guidance

Year Ended December 31, 2020

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Audited Financial Statements



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Report of Independent Auditors

The Board of Trustees
Puerto Rico Conservation Trust Fund

We have audited the accompanying consolidated financial statements of the Puerto Rico Conservation Trust Fund (the Trust), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Puerto Rico Conservation Trust Fund at December 31, 2020 and 2019, and the consolidated changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental schedules of Investment Fees and Expenses and Other Expenses, and of Land Management and Project Costs for the year ended December 31, 2020, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management. The information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated June 30, 2021, on our consideration of the Puerto Rico Conservation Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Puerto Rico Conservation Trust Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Puerto Rico Conservation Trust Fund's internal control over financial reporting and compliance.

Ernst & Young LLP

June 30, 2021

Stamp No. E426973 of the Puerto Rico Society of Certified Public Accountants was affixed to original of this report.

Puerto Rico Conservation Trust Fund

Consolidated Statements of Financial Position

	December 31	
	2020	2019
	<i>(In thousands)</i>	
Assets		
Cash and cash equivalents	\$ 20,689	\$ 34,724
Marketable securities	248,842	206,636
Notes receivable	6,841	6,841
Interest and dividend receivable	1,107	1,116
Due from US IRS	2,578	1,299
Investments pledged to secured notes	210,042	205,360
Land and properties held for conservation, net of accumulated depreciation of properties held for conservation of \$21,085 in 2020 and \$19,336 in 2019	138,665	139,557
Motor vehicles, furniture, and equipment, net of accumulated depreciation of \$5,631 in 2020 and \$5,179 in 2019	1,832	2,060
Conservation easements	5,320	5,320
Other assets	11,926	12,437
Total assets	<u>\$ 647,842</u>	<u>\$ 615,350</u>
Liabilities and net assets		
Liabilities:		
Secured notes payable	\$ 210,042	\$ 205,360
Notes payable	11,501	9,600
Interest payable	2,691	2,699
Accounts payable, accrued expenses, and other liabilities	13,013	13,354
Total liabilities	<u>237,247</u>	<u>231,013</u>
Net assets:		
Without donor restrictions	143,773	146,700
With donor restrictions	266,822	237,637
Total net assets	<u>410,595</u>	<u>384,337</u>
Total liabilities and net assets	<u>\$ 647,842</u>	<u>\$ 615,350</u>

See accompanying notes.

Puerto Rico Conservation Trust Fund

Consolidated Statements of Activities

	Without Donor Restrictions	With Donor Restrictions	Year Ended December 31, 2020	Without Donor Restrictions	With Donor Restrictions	Year Ended December 31, 2019
<i>(In thousands)</i>						
Investment revenue:						
Interest and dividend income on marketable securities	\$ 84	\$ 4,971	\$ 5,055	\$ 450	\$ 6,176	\$ 6,626
Investments pledged to secured notes	15,158	–	15,158	12,595	–	12,595
Realized and unrealized gain on marketable securities	–	24,358	24,358	2,196	29,673	31,869
	<u>15,242</u>	<u>29,329</u>	<u>44,571</u>	<u>15,241</u>	<u>35,849</u>	<u>51,090</u>
Expense:						
Realized and unrealized loss on marketable securities	6	–	6	–	–	–
Secured notes payable	14,250	–	14,250	11,891	–	11,891
Other fees and expenses	623	–	623	571	–	571
	<u>14,879</u>	<u>–</u>	<u>14,879</u>	<u>12,462</u>	<u>–</u>	<u>12,462</u>
Net investment revenue	363	29,329	29,692	2,779	35,849	38,628
Non investment revenue (expense) and support:						
Rum funds	–	14,920	14,920	–	13,740	13,740
Income from historic sites and nature reserves	858	–	858	341	–	341
Contributions and grants	702	2,138	2,840	642	12,543	13,185
Released from restrictions	17,202	(17,202)	–	14,102	(14,102)	–
Total non-interest income and support	<u>18,762</u>	<u>(144)</u>	<u>18,618</u>	<u>15,085</u>	<u>12,181</u>	<u>27,266</u>
Net investment income and non-investment income and support before other expenditures	19,125	29,185	48,310	17,864	48,030	65,894
Other expenditures:						
Program services:						
Communication	1,200	–	1,200	1,995	–	1,995
Land acquisition support	482	–	482	503	–	503
Resiliency Response Unit - Habitat	1,685	–	1,685	1,769	–	1,769
Natural protected areas	10,594	–	10,594	11,603	–	11,603
Other funded projects	1,015	–	1,015	1,499	–	1,499
Education, science and public policy	1,536	–	1,536	1,500	–	1,500
Total program services	<u>16,512</u>	<u>–</u>	<u>16,512</u>	<u>18,869</u>	<u>–</u>	<u>18,869</u>
Management and general	4,831	–	4,831	4,973	–	4,973
Fundraising activities	709	–	709	789	–	789
Total other expenditures	<u>22,052</u>	<u>–</u>	<u>22,052</u>	<u>24,631</u>	<u>–</u>	<u>24,631</u>
(Decrease) increase in net assets	(2,927)	29,185	26,258	(6,767)	48,030	41,263
Net assets at beginning of year	146,700	237,637	384,337	153,467	189,607	343,074
Net assets at end of year	<u>\$ 143,773</u>	<u>\$ 266,822</u>	<u>\$ 410,595</u>	<u>\$ 146,700</u>	<u>\$ 237,637</u>	<u>\$ 384,337</u>

See accompanying notes.

Puerto Rico Conservation Trust Fund

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2020	2019
	<i>(In thousands)</i>	
Operating activities		
Increase in net assets	\$ 26,258	\$ 41,263
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	2,190	1,491
Contributed land held for conservation	(60)	(9,850)
Retirement of assets	178	658
Contributions restricted for long-term investments	(17,058)	(26,283)
Unrealized and realized (gain) on marketable securities	(24,352)	(31,869)
Changes in operating assets and liabilities:		
Interest and dividend receivable	9	961
Other assets	509	(9,885)
Due from US IRS	(1,280)	5,056
Interest payable	(8)	720
Accounts payable, accrued expenses, and other liabilities	(337)	8,345
Total adjustments	(40,209)	(60,656)
Net cash used in operating activities	(13,951)	(19,393)
Investing activities		
Purchases of marketable securities	(42,660)	(3,308)
Proceeds from sale of marketable securities	24,804	21,308
Acquisition of land and properties for conservation	(800)	(3,222)
Acquisition of motor vehicles, furniture and equipment	(387)	(774)
Increase in notes receivable	-	(6,841)
Net cash (used in) provided by investing activities	(19,043)	7,163
Financing activities		
Contributions restricted for long-term investments	17,058	26,283
Increase in notes payable	1,901	9,600
Net cash provided by financing activities	18,959	35,883
Net (decrease) increase in cash and cash equivalents	(14,035)	23,653
Cash and cash equivalents at beginning of year	34,724	11,071
Cash and cash equivalents at end of year	\$ 20,689	\$ 34,724
Non-cash operating activities		
Contributed land	\$ 60	\$ 9,850
Change in investment pledged to secure notes	\$ -	\$ 94,624

See accompanying notes.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (In thousands)

December 31, 2020

1. Reporting Entity

The Puerto Rico Conservation Trust Fund (the PRCTF or the Trust) is organized pursuant to a memorandum of understanding agreed-upon on December 24, 1968, by the Governor of Puerto Rico, the Secretary of the Interior of the United States of America, and the Administrator of the Economic Development Administration of the Commonwealth of Puerto Rico. The PRCTF was constituted on January 23, 1970 as a charitable trust, created to protect and enhance the natural resources of Puerto Rico and to perform the functions of the United States and Puerto Rico in the area of conservation. The PRCTF is exempt from Puerto Rico income taxes under the Puerto Rico Income Tax Act of 1954, as amended, as well as property taxes and municipal licenses. The PRCTF is also exempt from U.S. income tax under the Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3), and is further classified as a Section 509(a)(3) organization.

Interest on debt issued by the PRCTF is exempt from Puerto Rico income taxes by law. The PRCTF's primary sources of funds are derived from a portion of the Rum tax, investment revenue from marketable securities, interest spread from pledged investments, and secured notes.

Para la Naturaleza, Inc. (PLN) is a non-for-profit corporation organized and existing under the laws of the Commonwealth of Puerto Rico, created to engage in any and all activities directed at securing functional and healthy ecological systems for the islands of Puerto Rico in order to inspire people to be stewards of nature so that shared social, economic and quality-of-life goals may be attained and, to this end, to provide necessary and indispensable services solely to the PRCTF. To fulfill this purpose, effective January 1, 2014, the PRCTF and PLN entered in a support services agreement, and employees and certain assets were transferred from the PRCTF to PLN, for it to begin operations. PLN is exempt from Puerto Rico income taxes under the Puerto Rico Income Tax Act of 1954, as amended, as well as property taxes and municipal licenses. PLN is also exempt from U.S. income tax under the Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and is further classified as a Section 4942 private operating foundation. PLN's Board of Directors is composed of two of the individuals serving from time to time as the trustees of the PRCTF, and one independent director. Therefore, the PRCTF controls PLN through a majority voting interest in the board of PLN and is consolidated with PRCTF.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies

The accounting and reporting policies of the Trust conform with U.S. generally accepted accounting principles (U.S. GAAP) and, as such, include amounts based on judgments, estimates, and assumptions made by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Following is a description of the more significant accounting policies followed by the Trust:

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of the PRCTF and PLN. All intercompany transactions have been eliminated in the consolidation.

During the year 2020, the Trust received 100% of the stock of Jagüey Agro Corporation (the Company) as a donation. The Company is included in the consolidated financial statements with assets of \$125.

Basis of Presentation

Net assets, revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Trust and changes therein are classified and reported as follows:

- *Net Assets with Donor Restrictions* – The net assets of the Trust that are subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature that may or will be met, either by actions of the Trust and/or the passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. As of December 31, 2020 and 2019, the Trust's net assets with donor restrictions are restricted for the endowment corpus.
- *Net Assets without Donor Restrictions* – The net assets of the Trust that are available for general use and are not subject to donor-imposed restrictions.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Support and revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

The corpus of the Trust consists of securities, land, and properties obtained through donations, transfers, or with the proceeds of investment transactions, and from those amounts determined by the board of trustees under the provisions of the trust instrument which expressly vest the board of trustees with the discretionary power to allot both receipts and expenditures against either the Trust's corpus or revenue, or both.

Cash and Cash Equivalents

Cash and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less when purchased. The carrying values of cash and cash equivalents approximate their fair value due to the short-term nature of these instruments. The trust maintains amounts on deposit with various financial institutions, which may, at times, exceed federally insured limits.

Marketable Securities

Marketable securities are stated at fair value. The net realized and unrealized gains (losses) on marketable securities are reflected in the statements of activities.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Investments Pledged to Secured Notes and Secured Notes Payable

The Trust issues long-term notes to unaffiliated entities and simultaneously purchases preferred securities, subordinated notes, and senior notes from financial institutions with matched terms to serve as collateral for the note issuance. Investors in the notes receive a tax advantaged rate of interest. The long-term notes are issued on a non-recourse basis with the sole source of repayment being cash flows from the related collateral securities. The Trust receives the spread, if any, between the income generated by the pledged investments and the interest expense generated by the notes.

Pledged investments and secured notes payable are recorded at fair value, with realized and unrealized gains and losses reflected in the statements of activities.

Land and Properties for Conservation

Acquired land is stated at cost. Contributed or transferred property is recorded at estimated fair value at the date of contribution. Expenditures for restoration, reconstruction, and development of properties are capitalized. These properties are maintained by the Trust for preservation purposes. Depreciation on restored properties is provided using the straight-line method over the estimated useful lives of the properties. Estimated useful lives range between five (5) to thirty (30) years.

Motor Vehicles, Furniture, and Equipment

Motor vehicles, furniture, and equipment are stated at amortized cost. Depreciation is being provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range between three (3) to five (5) years. Repair and maintenance costs are charged to expense in the period incurred.

Conservation Easements

Conservation easements are recorded as intangible assets and income when received. They are valued at estimated fair market value at the day of their acquisition.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Fair value estimates are made based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values for cash and cash equivalents, interest receivable, and all liabilities, excluding secured notes payable, approximate their carrying amounts because of the short-term nature of these instruments.

The estimated fair value of marketable securities, investments pledged to secured notes and secured notes payable recorded at fair value is based on quoted market prices, in an active market, for those or similar investments or notes.

Impairment of Long-Lived Assets

ASC Topic 360, *Property, Plant, and Equipment*, addresses the conditions under which an impairment charge should be recorded related to long-lived assets to be held and used and those to be disposed of by sale or otherwise. Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Events or circumstances that would result in an impairment review primarily include operating losses, a significant change in the use of an asset, or the planned disposal or sale of the asset. The asset would be considered impaired when the future net undiscounted cash flows generated by the asset are less than its carrying value. An impairment loss would be recognized based on the amount by which the carrying value of the asset exceeds its fair value. No events or circumstances resulting an impairment were present in 2020 and 2019.

Losses on assets held for disposal are recognized when management has approved and committed to a plan to dispose of the assets, and the assets are available for disposal. No losses were present in 2020 and 2019.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the financial statements requires management of the Trust to make estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are charged to expense as incurred.

Revenue Recognition

Rum Funds are recorded as revenue with donor restrictions which increases net assets with donor restrictions. As specified in Note 5, federal legislation authorizes a portion of the rum tax to be transferred to the Trust for a determined period of time. Rum funds do not contain donor-imposed conditions that need to be overcome before the Trust is entitled to the assets and can recognize the revenue. The Trust recognizes Rum Funds as revenue if the legislation is in effect.

Liquidity and Availability

The Trust regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Trust has various sources of liquidity at its disposal, including cash and cash equivalents and marketable securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Trust considers all expenditures related to its ongoing activities of conservation and securing functional and healthy ecological systems as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following:

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

Liquidity and Availability (continued)

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 7,644	\$ 6,961
Marketable securities	13,045	27,763
	<u>\$20,689</u>	<u>\$34,724</u>

The Trust has a goal to maintain financial assets, which consists of cash and marketable securities to be available as general expenditures, liabilities and other obligations become due. As described in Note 5, the endowment has a spending rate that is calculated annually. Distributions of \$15,880 will be available within the next 12 months.

Income Taxes

The Trust and PLN are both exempt from the payment of income taxes under Section 1101(4) of the Puerto Rico Internal Revenue Code of 1994, as amended, and under IRC Section 501(a) of the United States Internal Revenue Code as an organization described in Section 501(c)(3). The Trust is further classified as a Section 509(a)(3) organization, and PLN as private foundation within the meaning of Section 509(a) of the Code, and a private operating foundation under Section 4942(j)(3) of the Code.

Contributions

Contributions, including unconditional promises to give, are recorded as revenue in the period received. Contributions received with donor-imposed restrictions that are met in the same fiscal year are reported as revenue from net assets without donor restrictions. Conditional promises to give are not recognized as revenue until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted, if practicable, at an appropriate discount rate commensurate with the risk involved.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

2. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* superseding the guidance in former ASC 605, *Revenue Recognition*. It requires entities to recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance is effective for the fiscal year ending December 31, 2019 for the Trust. In response to the COVID-19 pandemic, the FASB deferred by one year the effective date of the new revenue standard (Topic 606) for entities that have not yet issued financial statements reflecting the adoption of the standard. The Trust was required to adopt this new guidance for the year ended December 31, 2020. Adoption of the amended guidance had no impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02 that amends the guidance for accounting and disclosure of leases. This new standard requires that lessees recognize the asset and liabilities that arise from leases on the balance sheet, including leases classified as operating leases under current GAAP, and disclose qualitative and quantitative information about leasing agreements. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2019. Early application of the amendments in this Update is permitted for all entities. The Board issued a proposal that would defer the effective date of the new leases standard by one year for entities other than public business entities, not-for-profit entities that are conduit bond obligors and employee benefit plans that file or furnish financial statements with or to the Securities and Exchange Commission (SEC). For affected entities, the standard would be effective for fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021. The Trust is currently in the process of evaluating the impact of the adoption of ASU 2016-02 on its financial statements and related disclosures.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

3. Fair Value Measurements

The Trust uses fair value measurements to state certain assets and liabilities. ASC Topic 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- *Level 1* – Quoted market prices in active markets for identical assets or liabilities.
- *Level 2* – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Trust has segregated all financial assets and liabilities that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

Effective January 1, 2007, the Trust adopted ASC Topic 825, *Financial Instruments*, which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value options were elected in earnings at each subsequent reporting date. The Trust has elected the fair value option for its secured notes payable and the underlying collateral investments securing the notes payable.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued)
(In thousands)

December 31, 2020

3. Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis are summarized below:

December 31, 2020					
	Level 1	Level 2	Level 3	Net Asset Value	Fair Value Measurement
Assets:					
Mutual funds - fixed income	\$ 82,351	\$ -	\$ -	\$ -	\$ 82,351
Equity securities	149,195	-	-	-	149,195
Corporate bonds	-	167,209	36,696	-	203,905
Agency-backed securities	-	7,992	-	-	7,992
Alternative investments	-	-	-	15,440	15,440
Total assets	\$ 231,546	\$ 175,201	\$ 36,696	\$ 15,440	\$ 458,883
Liabilities:					
Secured notes payable	\$ -	\$ 173,346	\$ 36,696	\$ -	\$ 210,042
Total liabilities	\$ -	\$ 173,346	\$ 36,696	\$ -	\$ 210,042

December 31, 2019					
	Level 1	Level 2	Level 3		Fair Value Measurement
Assets:					
Mutual funds - fixed income	\$ 66,987	\$ -	\$ -	\$ -	\$ 66,987
Equity securities	139,649	-	-	-	139,649
Corporate bonds	-	158,497	35,176	-	193,673
Agency-backed securities	-	9,408	-	-	9,408
Alternative investments	-	-	-	2,279	2,279
Total assets	\$ 206,636	\$ 167,905	\$ 35,176	\$ 2,279	\$ 411,996
Liabilities:					
Secured notes payable	\$ -	\$ 170,184	\$ 35,176	\$ -	\$ 205,360
Total liabilities	\$ -	\$ 170,184	\$ 35,176	\$ -	\$ 205,360

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

3. Fair Value Measurements (continued)

Mutual funds – Investments in mutual funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which market prices are readily available.

Equity securities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Investments pledged to secured notes and secured notes payable – The Trust invests in mortgage backed securities and corporate bonds, which are classified as Level 2. The Trust also invests in bonds for which there is no readily determinable fair value and are classified as Level 3 as the valuation is based on significant unobservable inputs. In some cases, the investee has provided its investors with a fair value that has been calculated in accordance with the AICPA Audit and Accounting Guide, Investment Companies, and within the guidance provided in ASC 820. The Trust has estimated its fair value by using the fair value provided by the investee as of December 31, 2020 and 2019.

Alternative investments – The fair value of certain alternative investments represents the ownership interest in the net asset value (NAV) of the respective funds and has not been classified in the fair value hierarchy. The fair values of the investments held by funds that do not have readily determinable fair values are determined by each fund's investments manager and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investments, the fair value is determined by the investment manager taking into consideration, among other things, the cost of the investment, prices of recent significant placements in similar investments of the same issuer, and the subsequent development concerning the companies to which the investments relate. The Trust has adopted the NAV practical expedient to measure the investments fair value. The Trust has performed due diligence regarding these investments and believes that the NAV of its alternative investments is a reasonable estimate of fair value as of December 31, 2020, and 2019.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

3. Fair Value Measurements (continued)

Level 3 Gains and Losses

The table below sets forth a summary of changes in the fair value of Level 3 assets.

	<u>2020</u>	<u>2019</u>
Investments Pledged to Secured Notes		
Balance beginning of year	\$ 35,176	\$ 33,379
Unrealized gains	1,520	2,822
Purchases, sales, insurances and settlements (net)	–	(1,025)
Balance end of year	<u>\$ 36,696</u>	<u>\$ 35,176</u>

Marketable securities primarily consist of shares in mutual funds of fixed income, equity securities and alternative investments. These securities are actively traded on the U.S. market. Investments pledged to secured notes primarily consist of subordinated capital, senior notes and preferred stock issued by international banks and financial institutions in Puerto Rico, which serve as collateral for the payment of secured notes payable. Marketable securities, hedge funds, investments pledged to secured notes and secured notes payable are carried at fair value with realized and unrealized gains and losses included in the statements of activities.

As the secured notes payable are solely dependent on the cash flows from the investments pledged to secured notes collateral, the fair value of the secured notes payable is predominantly aligned with that of its collateral after consideration is given to the tax advantaged nature of the secured notes payable. The investments pledged to secured notes were issued by financial services firms, many of whom have experienced significant deterioration in operations since issuance due to the global credit crisis and other factors.

In estimating the fair value of such assets and liabilities, the Trust has used the most recent observable transaction data made available to it and when such information was determined to be stale due to significant time differences, the Trust has made assumptions to adjust the price observed for changes in interest rates as well as credit spread movements of the issuer, or an entity determined to be similar, since the transaction date to estimate the fair values as of the end of the year. While the Trust believes the resulting fair values are reasonable, the assumptions made were highly judgmental and changes to the assumptions could result in significantly different fair values being determined.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

4. Rum Funds

On December 17, 1999, a law was signed which authorized an increase from \$10.50 to \$13.25 per proof gallon for a period of 30 months on the taxes received by Puerto Rico on rum shipments to the United States. The legislation authorized said increase with the understanding that the Governor of Puerto Rico made a commitment with the U.S. administration, that one-sixth of the \$2.75 increase would be transferred to the Trust. The U.S. Congress authorized the U.S. Treasury to transfer these funds. A joint resolution adopted by the Commonwealth's Legislature, which authorizes the Secretary of the Treasury of the Commonwealth to comply with said commitment, was signed into law by the Governor. On expiration of the original term, the Congress authorized an extension which expired on December 31, 2016. On February 9, 2018, Congress passed the Bipartisan Budget Act of 2018, which includes an extension until January 1, 2022.

The revenue derived from such tax amounted to \$14,920 and \$13,740 in 2020 and 2019, respectively. The Rum funds are donor restricted to build up the Trust's endowment and not for operational expenses or expenditures in new projects or acquisitions.

5. Endowment

The Trust's endowment has accumulated since 1999, by the rum funds received from the federal government. As stated in note 4, the Trust receives one-sixth of the \$2.75 temporary increase in the tax per proof gallon of the rum shipped from Puerto Rico to the U.S. The endowment includes both amounts with donor restrictions and amounts without donor restrictions.

The endowment consists of the original amounts of rum funds received. The U.S. Congress has restricted these funds of any use other than investments. The investment horizon of the endowment is long-term, and it is intended to be part of the corpus of the Trust. The amounts without donor restrictions consist mainly of interests, dividends, capital gains and distributions made from the endowment. Amounts without donor restrictions are also subdivided on the operational and reserve funds. While the reserve fund has a medium-term investment horizon the operational fund has a short-term investment horizon.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

5. Endowment (continued)

As stated in its Statement of Investment Policy, the Trust will determine the unrestricted excess funds available for use by applying a five year historical total-return method to calculate a Spending Rate for a given year. This method calculates the Spending Rate for a given year by applying the five year (or equivalent previous 60 months) average historical total-return (annualized) of the Endowment Portfolio as of December 31 of each year. For 2020 and 2019, the spending rate was calculated at 7.41% and 6.35% respectively.

Changes in endowment funds for the fiscal years ended December 31, 2020 and 2019, consisted of the following:

	December 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
	Endowment net assets at beginning of year	\$ 9,509	\$ 237,637
Investment return, net	363	29,329	29,692
Rum funds	-	14,920	14,920
Contributions to endowments	-	2,138	2,138
Expenditures	(22,052)	-	(22,052)
Other changes:			
Interests, dividends and capital gains, and donations transferred to fund without donor restrictions	17,202	(17,202)	-
Endowment net assets at end of year	\$ 5,022	\$ 266,822	\$ 271,844

	December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	Endowment net assets at beginning of year	\$ 14,505	\$ 189,607
Investment return, net	2,075	35,849	37,924
Rum funds	-	13,740	13,740
Contributions to endowments	-	12,543	12,543
Expenditures	(21,173)	-	(21,173)
Other changes:			
Interests, dividends and capital gains, and donations transferred to fund without donor restrictions	14,102	(14,102)	-
Endowment net assets at end of year	\$ 9,509	\$ 237,637	\$ 247,146

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

6. Land and Properties Held for Conservation

The following summarizes the land and properties held for conservation for the years ended December 31, 2020 and 2019.

Land and Properties Held for Conservation	2020	2019
Properties in Corpus:		
Natural Protected Area Hacienda Buena Vista, Ponce	\$ 4,958	\$ 4,944
Natural Reserve Hacienda La Esperanza, Manatí	37,966	37,757
Natural Reserve Las Cabezas De San Juan, Fajardo	11,568	11,490
Natural Reserve La Parguera, Lajas	3,090	3,090
Natural Protected Area Cañón de San Cristóbal, Barranquitas-Aibonito	2,824	2,688
Natural Reserve Inés María Mendoza, Yabucoa	4,015	4,015
Natural Protected Area Jorge Sotomayor del Toro, Caguas	31	31
Natural Reserve Bosque Pterocarpus, Humacao-Naguabo	1,515	1,500
Natural Reserve of Punta Ballenas	1,705	1,705
Natural Protected Area Río Encantado, Ciales-Florida-Manatí	8,678	8,678
Natural Protected Area La Luisa, Manatí	124	124
Natural Reserve Punta Guaniquilla, Cabo Rojo	6,666	6,666
Natural Protected Area Bosque de Pterocarpus, Dorado	326	326
Natural Refuge El Buey, Vieques	723	723
Natural Protected Area Río Maricao, Maricao	429	360
Natural Protected Area Cuevas El Convento, Peñuelas-Guayanilla	2,525	2,480
Natural Protected Area Sierra La Pandura, Yabucoa-Maunabo	313	313
Natural Protected Area Marrueño, Ponce	470	470
Natural Protected Area Río Guaynabo, Río Piedras-Guaynabo	1,595	1,595
Antiguo Acueducto de San Juan	1,486	1,394
Natural Protected Area Paraíso Las Lunas	1,488	1,488
Natural Protected Area Finca La Robleda	1,706	1,706
Natural Protected Area Finca Marín Alto	720	704
Natural Protected Area Finca Unanue	1,657	1,657
Natural Protected Area Finca María Luisa, Lajas	21	21
Natural Protected Area Finca Luz Martínez Benítez, Canóvanas	684	684
<i>Balance carried forward</i>	\$ 97,283	\$96,609

(Continued)

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued)
(In thousands)

December 31, 2020

6. Land and Properties Held for Conservation (continued)

Land and Properties Held for Conservation	2020	2019
<i>Balance brought forward</i>	97,283	96,609
Natural Protected Area Finca Gulin, Fajardo	12	12
Natural Protected Area Finca Santiago Villar, Caguas	1,466	1,466
Natural Protected Area Finca Santa Agueda, Naguabo	1,405	1,405
Natural Protected Area Finca Las Quintas, Ponce	370	370
Natural Protected Area Finca El Ojo de Agua, Juana Díaz	8,477	8,477
Natural Protected Area Finca Sector La Esperanza (Cabuyones), Ponce	1,468	1,468
Natural Protected Area Finca Jobos, Salinas	655	655
Natural Protected Area Finca Barrio Bairoa, Caguas	5,546	5,546
Natural Protected Area Finca Altamira, Canóvanas	3,800	3,800
Natural Protected Area Finca Cordillera Sabana Alta, Cabo Rojo	1,594	1,594
Natural Protected Area Finca Guayanilla	760	760
Natural Protected Area Finca Coamo	1,540	1,540
Natural Protected Area Finca Barrio Jájome, Cayey	954	954
Natural Protected Area Finca Vazquez Rutter, Ponce	240	240
Natural Protected Area Hacienda Pelleja, Adjuntas	2,068	2,068
Natural Protected Area Finca Las Paldas, Guanica	2	2
Natural Protected Area, Finca Hacienda Covadonga	3	3
Natural Protected Area Finca Roberto Serrallé, Ponce	2	2
Natural Protected Area Finca Toa Vaca, Villalba	787	787
Natural Protected Area Hacienda Lago, Gurabo	384	384
Natural Protected Area Freddie Ramírez, Vega Baja	1,228	1,228
Natural Protected Area Rio Prieto, Lares	5,229	5,155
Natural Protected Area Finca Bo. Los Rios Jacaboa, Patillas	1,906	1,906
Natural Protected Area Finca Knowlton, Culebra	2,820	2,820
Natural Protected Area Finca Bo Quebrada Janer, San Lorenzo	1,130	1,070
Natural Protected Area Bo Llano Costa Sierra Bermeja, Cabo Rojo	818	806
Natural Protected Area Ulpiano Casals, San Lorenzo	306	306
Natural Protected Area El Rabanal	152	152
Natural Protected Luz Martínez Benítez	9,850	9,850
<i>Balance carried forward</i>	152,255	151,435

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued)
(In thousands)

December 31, 2020

6. Land and Properties Held for Conservation (continued)

Land and Properties Held for Conservation	2020	2019
<i>Balance brought forward</i>	152,255	151,435
Natural Protected Area Quebradilla	86	86
Natural Protected Area Others	505	486
	152,846	152,007
Accumulated depreciation of undesignated properties held for conservation	(20,345)	(18,902)
Total costs-properties outside corpus	132,501	133,105
Undesignated:		
Casa Ramón Power, San Juan	4,674	4,667
Edificio Ochoa, San Juan	7	–
Cerro Las Mesas, Mayagüez	365	365
Finca Shapiro, Naguabo	42	42
Finca El Verde (Forest Service), Río Grande	199	199
Finca Los Frailes, Loíza	424	424
Edificio Blanco Olaya, San Juan	24	24
Edificio Club de Leones, Barranquitas	509	509
Edificio Roosevelt Roads	179	175
Faro Culebrita, Culebra	481	481
	6,904	6,886
Accumulated depreciation of undesignated properties held for conservation	(740)	(434)
Total costs-properties outside corpus	6,164	6,452
Grand total	\$ 138,665	\$139,557

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued)
(In thousands)

December 31, 2020

7. Secured Notes Payable

Secured notes payable at December 31, 2020 and 2019, consist of the following:

	At Fair Value	
	2020	2019
Notes payable at maturity, at an annual interest rate of 4.95%, payable monthly, maturing in August 2028. These notes are payable from and secured by a pledge of 5.60% Ginnie Mae I Mortgage-Backed Certificates, with a par value of \$7,993 and \$8,875 as of December 31, 2020 and 2019, respectively.	\$ 7,993	\$ 9,437
Notes payable at maturity, at an annual interest rate of 6.50%, payable quarterly, maturing in June 30, 2035. These notes are payable from and secured by a pledge of 6.75% Autopistas Metropolitanas de Puerto Rico, LLC, with a par value of \$49,626 and \$50,544 as of December 31, 2020, and 2019, respectively.	45,772	45,188
Notes payable at maturity, at an annual interest rate of 6.50%, payable quarterly, maturing in June 30, 2035. These notes are payable from and secured by a pledge of 6.75% Autopistas Metropolitanas de Puerto Rico, LLC, with a par value of \$32,165 and \$32,760 as of December 31, 2020, and 2019, respectively.	29,666	29,288
Notes payable at maturity, at an annual interest rate of 5.40%, payable quarterly, maturing in March 22, 2035. These notes are payable from and secured by a pledge of 5.75% Aerostar Airport Holdings, with a par value of \$34,954 and \$36,009 as of December 31, 2020, and 2019, respectively.	36,696	35,176
Notes payable at maturity, at an annual interest rate of 6.50%, payable quarterly, maturing in December 31, 2038. These notes are payable from and secured by a pledge of 7.00% Autopistas Metropolitanas de Puerto Rico, LLC, with a par value of \$100,000 as of December 31, 2020.	89,915	86,271
	\$210,042	\$205,360

Approximate fair value of secured notes payable as of December 31, 2020 and 2019, was \$210,042 and \$205,360, respectively. Approximate fair value of underlying collateral investments securing the notes payable as of December 31, 2020 and 2019, was \$210,042 and \$205,360, respectively.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

7. Secured Notes Payable (continued)

On May 21, 2019, the Trust entered in a secured loan agreement with Banco Popular of Puerto Rico and FirstBank, in which the banks subscribed \$70,000 and \$30,000 respectively, collateralized with senior secured notes of Autopistas Metropolitanas de Puerto Rico, LLC. The notes mature on December 31, 2038. The loan was structured as a non-recourse obligation of the Trust payable solely from the payments received from the Collateral.

8. New Markets Tax Credit

On April 26, 2019, the Trust entered in a New Market Tax Credit (NMTC) operating costs transaction, in which Para la Naturaleza acted as a Qualified Active Low Income Community Business (QALICB) borrower, and the Trust acted as the leverage lender. The \$10,000 transaction involved Capital One, through an investment fund as the investor receiving the credit, and Banco Popular, through its subsidiary Popular Community Capital (PCC) as the Community Development Entity (CDE) awarded with the program allocation. With this NMTC transaction Para la Naturaleza entered into loan agreements with the Trust for leverage lending (Note A), and Capital One for NMTC equity (Note B), for \$6,841 (interest rate of 1.3%, maturing on April 30, 2049) and \$2,759 (interest rate of 1.3%, maturing on April 30, 2049), respectively. These loans constitute Qualified Low-Income Community Investments (QLICs) for purposes of the NMTC program, and expire on April 2049. The loans (Note A & B) payable by PLN were recorded on the Statement of Financial Position as a Notes Payable by \$9,600 and the receivable from the Trust (Note A) was recorded as a Notes Receivable by \$6,841. In addition to the note agreements, Capital One and the Trust entered into a separate Investment Fund Put/Call Agreement in which in the event that the Capital One may wish to dispose of interest in the investment fund, and the Trust may wish to acquire such interest, this agreement becomes available to exercise during the period beginning on the Recapture Expiration Date (April 26, 2026), ending 180 calendar days after said date.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued)
(In thousands)

December 31, 2020

9. Functional Expenses

Direct costs are recorded to the functional category to which they relate. All other expenses which are not directly identifiable by program or supporting service, are allocated based on management's estimate of the relative functional activity.

Functional expenses for the fiscal year ended December 31, 2020, are summarized below:

	Management and General	Fundraising Activities	Program Services	Total
Salaries and vacations	\$ 1,762	\$ 290	\$ 4,918	\$ 6,970
Bonuses	65	11	189	265
Payroll taxes	151	25	672	848
Employee retirement and medical benefits	456	46	1,701	2,203
Non-capitalizable assets	4	—	27	31
Depreciation	26	2	2,330	2,358
General insurance	90	4	347	441
Taxes	57	—	—	57
Library dues, subscriptions, and memberships	45	25	25	95
Advertising	1	—	25	26
Meetings, conference, and seminars	18	1	17	36
Office supplies and postage	12	10	25	47
Other projects costs	37	33	971	1,041
Professional services	1,464	221	2,019	3,704
Information systems	210	8	193	411
Security	—	—	752	752
Rent and rental equipment	101	16	226	343
Repairs and maintenance	16	—	709	725
Supplies and materials	1	1	291	293
Travel and representation	32	2	62	96
Utilities	139	11	317	467
Vehicles	66	—	671	737
Other	78	3	25	106
Total	<u>\$ 4,831</u>	<u>\$ 709</u>	<u>\$ 16,512</u>	<u>\$ 22,052</u>

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

9. Functional Expenses (continued)

Functional expenses for the fiscal year ended December 31, 2019, are summarized below:

	Management and General	Fundraising Activities	Program Services	Total
Salaries and vacations	\$ 1,667	\$ 288	\$ 5,110	\$ 7,065
Bonuses	148	22	294	464
Payroll taxes	142	25	759	926
Employee retirement and medical benefits	463	49	1,543	2,055
Non-capitalizable assets	6	—	49	55
Depreciation	35	3	2,114	2,152
General insurance	123	5	433	561
Taxes	60	—	—	60
Library dues, subscriptions, and memberships	51	18	34	103
Advertising	1	35	579	615
Meetings, conference, and seminars	62	1	50	113
Office supplies and postage	26	4	49	79
Other projects costs	49	40	1,991	2,080
Professional services	1,386	230	1,877	3,493
Information systems	220	9	168	397
Security	—	—	819	819
Rent and rental equipment	98	11	367	476
Repairs and maintenance	13	—	996	1,009
Supplies and materials	7	—	200	207
Travel and representation	98	18	145	261
Utilities	131	13	348	492
Vehicles	87	13	857	957
Other	100	5	87	192
Total	<u>\$ 4,973</u>	<u>\$ 789</u>	<u>\$ 18,869</u>	<u>\$ 24,631</u>

10. Commitments and Contingencies

The Trust is a defendant or codefendant in various lawsuits arising in the ordinary course of its charitable activities. Management believes that the additional liability, if any, resulting from the ultimate resolution of these matters will not have a material adverse effect on the Trust's financial position or changes in net assets.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

11. Employee Benefit Plan

The Trust's defined contribution plan covers substantially all employees. Under the plan, the Trust makes matching contributions of 100% of the individual participant's salary deferrals of up to 5% of the employee's total compensation. The Trust's contribution to the plan during 2020 and 2019, amounted approximately \$610 and \$588, respectively.

12. Puerto Rico Government's Financial Condition

The Government of Puerto Rico (the Commonwealth) is currently facing significant negative economic conditions, liquidity issues and has defaulted on significant debt and other obligations.

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad terms, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of an oversight board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt (Title III and Title VI). PROMESA creates a federally appointed oversight board (the Oversight Board) that has authority to oversee Puerto Rico's finances.

Title III of PROMESA extends to Puerto Rico and its instrumentalities various benefits of a bankruptcy proceeding. To this effect, the mentioned title incorporates by reference various sections of the United States Bankruptcy Code. In general terms, the cited provision allows for a proceeding under the mentioned title similar to a bankruptcy reorganization – or Chapter 11 proceeding. However, due to the nature of the entity requesting the relief, it also incorporates dispositions applicable to governmental entities' bankruptcy proceeding (Chapter 9). The end goal of the Title III proceeding is to confirm a plan of adjustments, which is similar to what a plan of reorganization is in a Chapter 11 Bankruptcy.

Puerto Rico Conservation Trust Fund

Notes to Consolidated Financial Statements (continued) (In thousands)

December 31, 2020

12. Puerto Rico Government's Financial Condition (continued)

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico filed a Title III petition for the Commonwealth of Puerto Rico. Due to the *sui generis* nature of this proceeding, it is uncertain how long will it take for the approval of a plan of adjustment to be approved and confirmed for the restructure of the Commonwealth's finances. Thus, at this moment, it is uncertain how long will the Commonwealth of Puerto under the Title III provisions of PROMESA and the final effects on the economy of such proceeding.

13. Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC 855-10, *Subsequent Events*, management has evaluated and reviewed the affairs of the Trust for subsequent events that would impact the consolidated financial statements for the year ended December 31, 2020, through the date the consolidated financial statements were issued which was June 30, 2021.

During fiscal year 2021, management of the Company submitted and was approved the PPP Loan Forgiveness Application ("the PPP Forgiveness Application") in the amount of \$1,834,100. As of the date these financial statements were available to be issued, the PPP Forgiveness Application was submitted and approved.

Supplementary Information

Puerto Rico Conservation Trust Fund

Investment Fees and Expenses and Other Expenses (Unaudited)
(In thousands)

Year Ended December 31, 2020

	Program Expenses								Total
	Management and Support	Fundraising	Outreach & Communications	Land Acquisition Support	Education, Science Public Policy	Reforestation & Resilience	Other Funded Projects	Natural Protected	
Investment fees and expenses:									
Commissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Custodial fee	-	-	-	-	-	-	-	-	-
Notaries and closing	-	-	-	-	-	-	-	-	-
Legal and financial counsel and other expenses	-	-	-	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other expenses:									
Salaries and vacations	\$ 1,762	\$ 290	\$ 467	\$ 283	\$ 467	\$ 581	\$ -	\$ 3,120	\$ 6,970
Bonuses	65	11	16	11	18	21	-	123	265
Payroll taxes	151	25	47	27	43	76	-	479	848
Employee retirement and medical benefits	456	46	195	67	120	196	-	1,123	2,203
Non-capitalizable assets	4	-	3	-	6	2	-	16	31
Depreciation	26	2	11	2	3	64	-	2,250	2,358
General insurance	90	4	6	5	5	25	-	306	441
Taxes	57	-	-	-	-	-	-	-	57
Library dues, subscriptions, and memberships	45	25	9	3	6	-	-	7	95
Advertising	1	-	25	-	-	-	-	-	26
Meetings, conference, and seminars	18	1	-	-	2	2	-	13	36
Office supplies and postage	12	10	1	-	1	3	-	20	47
Other projects costs	37	33	6	1	189	112	568	95	1,041
Professional services:									
Temporary services	28	4	5	-	-	200	-	104	341
Consultant	1,005	217	249	5	546	54	446	401	2,923
General legal fees	269	-	-	9	-	-	-	-	278
Auditing and accounting fees	162	-	-	-	-	-	-	-	162
Information systems	210	8	46	11	26	9	-	101	411
Security	-	-	-	-	-	-	-	752	752
Rent and rental equipment	101	16	47	14	42	21	-	102	343
Repairs and maintenance	16	-	-	-	-	39	-	670	725
Supplies and materials	1	1	1	-	13	60	-	217	293
Travel and representation	32	2	-	34	17	-	-	11	96
Trustees and advisory counsel expenses	-	-	-	-	-	-	-	-	-
Utilities	139	11	41	10	22	32	-	212	467
Vehicles	66	-	19	-	6	188	1	457	737
Other	78	3	6	-	4	-	-	15	106
Total	<u>\$ 4,831</u>	<u>\$ 709</u>	<u>\$ 1,200</u>	<u>\$ 482</u>	<u>\$ 1,536</u>	<u>\$ 1,685</u>	<u>\$ 1,015</u>	<u>\$ 10,594</u>	<u>\$ 22,052</u>

Puerto Rico Conservation Trust Fund
Land Management and Project Costs (Unaudited)
(In thousands)

Year Ended December 31, 2020

	Natural				North Region	South Region	West Region	East Region	San Juan Region	Jagüey Agro	Total
	Protected Areas	Eco D'Tour	Ecologdes	Grants							
Salaries and vacations	\$ 338	\$ 105	\$ 138	\$ -	\$ 677	\$ 649	\$ 60	\$ 673	\$ 480	\$ -	\$ 3,120
Bonuses	9	4	6	-	26	28	2	29	19	-	123
Payroll taxes	33	13	20	-	109	107	5	110	82	-	479
Employee retirement and medical benefits	84	26	59	-	272	241	18	242	181	-	1,123
Non-capitalizable assets	4	-	1	-	1	2	2	5	1	-	16
Depreciation	52	11	68	-	1,045	266	18	464	326	-	2,250
General Insurance	10	4	53	-	54	52	5	47	81	-	306
Taxes	-	-	-	-	-	-	-	-	-	-	-
Library dues, subscriptions, and memberships	1	1	-	-	2	1	-	1	1	-	7
Advertising	-	-	-	-	-	-	-	-	-	-	-
Meetings, conference, and seminars	-	1	1	-	2	2	-	4	3	-	13
Office supplies and postage	1	1	1	-	4	4	-	4	5	-	20
Other projects costs	1	22	-	45	9	15	-	1	2	-	95
Professional services:											
Temporary services	-	-	-	-	65	12	7	-	-	20	104
Consultants	88	23	9	158	21	32	10	4	30	26	401
General legal fees	-	-	-	-	-	-	-	-	-	-	-
Auditing and accounting fees	-	-	-	-	-	-	-	-	-	-	-
Information systems	22	5	2	-	18	17	-	18	19	-	101
Security	-	9	105	-	183	115	-	224	116	-	752
Rent and rent equipment	19	12	-	-	29	4	-	34	4	-	102
Repairs and maintenance	65	-	85	-	220	138	11	96	53	2	670
Supplies and materials	62	14	4	74	30	16	3	6	7	1	217
Travel	1	-	1	5	-	-	-	4	-	-	11
Utilities	15	7	5	-	42	52	3	41	47	-	212
Vehicles	58	32	16	-	85	58	33	105	70	-	457
Other	-	-	1	-	5	1	1	3	3	1	15
Total	\$ 863	\$ 290	\$ 575	\$ 282	\$ 2,899	\$ 1,812	\$ 178	\$ 2,115	\$ 1,530	\$ 50	\$ 10,594



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Puerto Rico Conservation Trust Fund

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Puerto Rico Conservation Trust Fund (the Trust), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

June 30, 2021

Stamp No. E426974 of the Puerto Rico Society of Certified Public Accountants was affixed to original of this report.

Reports and Schedule Required by the Uniform Guidance



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
Puerto Rico Conservation Trust Fund

Report on Compliance for Each Major Federal Program

We have audited Puerto Rico Conservation Trust Fund (the Trust)'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Trust's major federal programs for the year ended December 31, 2020. The Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Trust's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Trust's compliance.

Opinion on Each Major Federal Program

In our opinion, the Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of the Trust is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Trust as of and for the year ended December 31, 2020, and have issued our report thereon dated June 30, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

March 29, 2022

Stamp No. E458408 of the Puerto Rico
Society of Certified Public Accountants
was affixed to original of this report.

Puerto Rico Conservation Trust Fund
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2020

Federal Grantor / Program or Cluster Title	Direct Federal Award Expenditures	Indirect Federal Award Expenditures	Total Expenditures
US Department of Agriculture			
N/A Challenge Cost Share Agreement / Northeastern Trail	\$ 4,867	\$ —	\$ 4,867
10.912 Environmental Quality Incentives Program	6,764	—	6,764
10.678 Forest Stewardship Program	22,395	—	22,395
Total US Department of Agriculture	34,026	—	34,026
US Department of Commerce			
11.482 Coral Reef Conservation Program	6,709	—	6,709
11.473 Officer for Coastal Management	174,953	—	174,953
Total US Department of Commerce	181,662	—	181,662
National Aeronautics and Space Administration			
43.001 Science	19,739	—	19,739
Total National Aeronautics and Space Administration	19,739	—	19,739
US Fish and Wildlife Services			
15.657 Endangered Species Recovery Implementation	472,246	41,233	513,479
15.631 Partners for Fish and Wildlife Program	11,826	—	11,826
Total US Fish and Wildlife Services	484,072	41,233	525,305
Total Expenditures of Federal Awards	\$ 719,499	\$ 41,233	\$ 760,732

See accompanying notes to Schedule of Expenditures of Federal Awards.

Puerto Rico Conservation Trust Fund

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all Federal Awards Programs of Puerto Rico Conservation Trust (the Trust). The Trust's reporting entity is defined in the notes to the financial statements. Catalog of Federal Assistance Listing Numbers are presented for those programs for which such numbers were available. Federal programs are presented, as appropriate, by Federal agency.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule.

4. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying schedule, which is prepared on the basis of accounting described in Note 2.

Office of Management and Budget under the Uniform Guidance requires that federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Trust prepares the federal financial reports and claims for reimbursements primarily based on information from the internal accounting records of the Puerto Rico Conservation Trust.

Puerto Rico Conservation Trust Fund

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended December 31, 2020

5. Contingencies

The grant amounts received are subject to audit and adjustment. If any expenditure is disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Trust. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

6. Indirect Cost Rate

The Trust does not have a negotiated indirect cost rate; therefore, the Trust uses the ten percent de minimis indirect cost rate allowed by the Uniform Guidance.

Puerto Rico Conservation Trust Fund
 Schedule of Findings and Questioned Costs

Year Ended December 31, 2020

Section I – Summary of Auditors’ Results

Financial Statements Section

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	None reported
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No

Federal Awards Section

Internal control over major federal programs:

Material weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	None reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major federal programs:

Name of Federal Program or Cluster	Assistance Listing Number (s)
Endangered Species Recovery Implementation	15.657
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as a low-risk auditee?	_____ Yes <u>X</u> No

Puerto Rico Conservation Trust Fund

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2020

Section II - Findings Related to the Financial Statements

None reported.

Puerto Rico Conservation Trust Fund

Schedule of Findings and Questioned Costs (continued)

Year Ended December 31, 2020

Section III – Federal Award Findings and Questioned Costs

None reported.

About EY

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