

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

Puerto Rico Conservation Trust Fund  
Year Ended December 31, 2021  
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, 2021

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# Audited Financial Statements



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## Report of Independent Auditors

Management and Those Charged With Governance  
Puerto Rico Conservation Trust Fund

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated financial statements of the Puerto Rico Conservation Trust Fund (the Trust), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust at December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 required to be independent of the Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust’s ability to continue as a going concern for one year after the date that the consolidated financial statements were available to be issued.

### *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 of 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 absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the 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, 2021, 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 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, 2022 on our consideration of the Trust'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 Trust'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 Trust's internal control over financial reporting and compliance.

*Ernst & Young LLP*

June 30, 2022

Stamp No. E486316 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

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 30,038	\$ 20,689
Marketable securities	272,466	248,842
Notes receivable	6,841	6,841
Interest and dividend receivable	1,822	1,107
Due from US IRS	2,304	2,578
Investments pledged to secured notes	214,777	210,042
Land and properties held for conservation, net of accumulated depreciation of properties held for conservation of \$22,917 in 2021 and \$21,085 in 2020	141,070	138,665
Motor vehicles, furniture, and equipment, net of accumulated depreciation of \$5,997 in 2021 and \$5,631 in 2020	1,567	1,832
Conservation easements	5,320	5,320
Other assets	12,179	11,926
Total assets	\$ 688,384	\$ 647,842
<b>Liabilities and net assets</b>		
Liabilities:		
Secured notes payable	\$ 214,777	\$ 210,042
Notes payable	11,434	11,501
Interest payable	3,382	2,691
Accounts payable, accrued expenses, and other liabilities	11,669	13,013
Total liabilities	241,262	237,247
Net assets:		
Without donor restrictions	143,541	143,773
With donor restrictions	303,581	266,822
Total net assets	447,122	410,595
Total liabilities and net assets	\$ 688,384	\$ 647,842

*See accompanying notes.*

Puerto Rico Conservation Trust Fund

Consolidated Statements of Activities

	Without Donor Restrictions	With Donor Restrictions	Year Ended December 31, 2021	Without Donor Restrictions	With Donor Restrictions	Year Ended December 31, 2020
	<i>(In Thousands)</i>					
Investment revenue:						
Interest and dividend income on marketable securities	\$ 325	\$ 6,643	\$ 6,968	\$ 84	\$ 4,971	\$ 5,055
Investments pledged to secured notes	14,784	–	14,784	15,158	–	15,158
Realized and unrealized gain on marketable securities	557	27,919	28,476	–	24,358	24,358
	<u>15,666</u>	<u>34,562</u>	<u>50,228</u>	<u>15,242</u>	<u>29,329</u>	<u>44,571</u>
Expenses:						
Realized and unrealized loss on marketable securities	–	–	–	6	–	6
Secured notes payable	13,900	–	13,900	14,250	–	14,250
Other fees and expenses	734	–	734	623	–	623
	<u>14,634</u>	<u>–</u>	<u>14,634</u>	<u>14,879</u>	<u>–</u>	<u>14,879</u>
Net investment revenue	1,032	34,562	35,594	363	29,329	29,692
Non-investment income and support:						
Rum funds	–	15,644	15,644	–	14,920	14,920
Income from historic sites and nature reserves	745	–	745	858	–	858
Contributions and grants	2,925	3,682	6,607	702	2,138	2,840
Released from restrictions	17,129	(17,129)	–	17,202	(17,202)	–
Total non-investment income and support	<u>20,799</u>	<u>2,197</u>	<u>22,996</u>	<u>18,762</u>	<u>(144)</u>	<u>18,618</u>
Net investment revenue and non-investment income and support before other expenditures	21,831	36,759	58,590	19,125	29,185	48,310
Other expenditures:						
Program services:						
Communication	1,396	–	1,396	1,200	–	1,200
Land acquisition support	456	–	456	482	–	482
Resiliency Response Unit - Habitat	1,764	–	1,764	1,685	–	1,685
Natural protected areas	10,920	–	10,920	10,594	–	10,594
Other funded projects	839	–	839	1,015	–	1,015
Education, science and public policy	1,355	–	1,355	1,536	–	1,536
Total program services	<u>16,730</u>	<u>–</u>	<u>16,730</u>	<u>16,512</u>	<u>–</u>	<u>16,512</u>
Management and general	4,619	–	4,619	4,831	–	4,831
Fundraising activities	714	–	714	709	–	709
Total other expenditures	<u>22,063</u>	<u>–</u>	<u>22,063</u>	<u>22,052</u>	<u>–</u>	<u>22,052</u>
(Decrease) increase in net assets	(232)	36,759	36,527	(2,927)	29,185	26,258
Net assets at beginning of year	143,773	266,822	410,595	146,700	237,637	384,337
Net assets at end of year	<u>\$ 143,541</u>	<u>\$ 303,581</u>	<u>\$ 447,122</u>	<u>\$ 143,773</u>	<u>\$ 266,822</u>	<u>\$ 410,595</u>

See accompanying notes.



Puerto Rico Conservation Trust Fund  
Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Increase in net assets	\$ 36,527	\$ 26,258
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	2,263	2,190
Contributed land held for conservation	(1,835)	(60)
Retirement of assets	211	178
Contributions restricted for long-term investments	(19,326)	(17,058)
Unrealized and realized (gain) on marketable securities	(28,476)	(24,352)
Changes in operating assets and liabilities:		
Interest and dividend receivable	(715)	9
Other assets	(253)	509
Due from US IRS	274	(1,280)
Interest payable	691	(8)
Accounts payable, accrued expenses, and other liabilities	(1,344)	(337)
Total adjustments	(48,510)	(40,209)
Net cash used in operating activities	(11,983)	(13,951)
<b>Investing activities</b>		
Purchases of marketable securities	(18,600)	(42,660)
Proceeds from sale of marketable securities	23,452	24,804
Acquisition of land and properties for conservation	(2,403)	(800)
Acquisition of motor vehicles, furniture and equipment	(376)	(387)
Net cash provided by (used in) investing activities	2,073	(19,043)
<b>Financing activities</b>		
Contributions restricted for long-term investments	19,326	17,058
(Decrease) increase in notes payable	(67)	1,901
Net cash provided by financing activities	19,259	18,959
Net increase (decrease) in cash and cash equivalents	9,349	(14,035)
Cash and cash equivalents at beginning of year	20,689	34,724
Cash and cash equivalents at end of year	\$ 30,038	\$ 20,689
<b>Non-cash operating activities</b>		
Contributed land	\$ 1,835	\$ 60

*See accompanying notes.*

# Puerto Rico Conservation Trust Fund

## Notes to Consolidated Financial Statements (In thousands)

December 31, 2021

### 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, and 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, 2021

### 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.

#### 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, 2021 and 2020, 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, 2021

#### **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, 2021

#### **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, 2021

#### **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 2021 and 2020.

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 2021 and 2020.

# Puerto Rico Conservation Trust Fund

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

December 31, 2021

### **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**

The Trust has various revenue streams mainly composed of rum funds, realized and unrealized gains on marketable securities, interest income on marketable securities and investments pledged to secured notes, contributions and grants. The Trust adopted ASC 606 during 2020 and did not result in a material impact to the financial statements as the Trust's grants and contracts continue to be accounted for as contributions under the new guidance. As such, revenue recognition for these contracts is consistent with the Trust's revenue recognition policies prior to the adoption of ASC 606. Realized gains and losses on security transactions are determined on the identified cost method. Market value re-evaluations on securities are recognized as unrealized gains or losses for the year-ended. 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.

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

#### 2. Summary of Significant Accounting Policies (continued)

##### Liquidity and Availability (continued)

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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,624	\$ 7,644
Money market	<u>23,414</u>	<u>13,045</u>
	<u>\$30,038</u>	<u>\$20,689</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 \$21,582 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.



# Puerto Rico Conservation Trust Fund

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

December 31, 2021

### **2. Summary of Significant Accounting Policies (continued)**

#### **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.

#### **New Accounting Pronouncements**

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 statements of financial position, 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, 2021 and interim periods within fiscal years beginning after December 15, 2021. The Trust is evaluating the impact of the adoption of ASU 2016-02 on its financial statements and related disclosures to implement in the year 2022.

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

#### **2. Summary of Significant Accounting Policies (continued)**

##### **New Accounting Pronouncements (continued)**

In September 2020, the FASB issued ASU No. 2020-07 to improve generally accepted accounting principles (GAAP) by increasing the transparency of contributed non-financial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. This new standard addresses certain stakeholders' concerns about the lack of transparency about the measurement of contributed non-financial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's program and other activities. The amendments in this Update are effective for annual financial statements issued for fiscal years beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early application of the amendments in this Update is permitted. The Trust is currently in the process of evaluating the impact of the adoption of ASU 2020-07 on its financial statements and related disclosures.

#### **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.

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

### 3. Fair Value Measurements (continued)

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.

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

	December 31, 2021				
	Level 1	Level 2	Level 3	Net Asset Value	Fair Value Measurement
Assets:					
Mutual funds - fixed income	\$ 64,561	\$ —	\$ —	\$ —	\$ 64,561
Equity securities	180,381	—	—	—	180,381
Corporate bonds	—	173,972	34,926	—	208,898
Municipal bonds	—	1,181	—	—	1,181
Agency-backed securities	—	7,681	—	—	7,681
Alternative investments	—	—	—	24,541	24,541
Total assets	\$ 244,942	\$ 182,834	\$ 34,926	\$ 24,541	\$ 487,243
Liabilities:					
Secured notes payable	\$ —	\$ 179,851	\$ 34,926	\$ —	\$ 214,777
Total liabilities	\$ —	\$ 179,851	\$ 34,926	\$ —	\$ 214,777
	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

# Puerto Rico Conservation Trust Fund

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

December 31, 2021

### 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.

Corporate bonds, municipal bonds, and agency-backed securities – Investments in corporate bonds, municipal bonds, and agency-backed securities are measured at fair value using quoted market prices. They are classified as Level 2 as they are traded in markets that are not active or observable inputs over the full term of the asset.

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, 2021 and 2020.

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, 2021, and 2020.

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

#### 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>2021</u>	<u>2020</u>
<b>Investments Pledged to Secured Notes</b>		
Balance beginning of year	\$ 36,696	\$ 35,176
Unrealized (loss)/gain	<u>(1,770)</u>	<u>1,520</u>
Balance end of year	<u>\$ 34,926</u>	<u>\$ 36,696</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 in mortgage-backed securities and corporate bonds, 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.

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, 2021

#### **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. With no extension approved yet, the foremost opportunity for it to pass is as part of the tax extenders that will probably be attended in December 2022. The Trust firmly believes that the extenders will be approved retroactively, as has happened in the past.

The revenue derived from such tax amounted to \$15,644 and \$14,920 in 2021 and 2020, 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 to build up the endowment and not be used for operational expenses or capital expenditures. 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, 2021

#### 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 2021 and 2020, the spending rate was calculated at 8.66% and 7.41% respectively.

Changes in endowment funds for the fiscal years ended December 31, 2021 and 2020, consisted of the following:

	December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
	Endowment net assets at beginning of year	\$ 5,022	\$ 266,822
Investment return, net	1,032	34,562	35,594
Rum funds	–	15,644	15,644
Contributions to endowments	–	3,682	3,682
Expenditures	(22,063)	–	(22,063)
Other changes:			
Interests, dividends and capital gains, and donations transferred to fund without donor restrictions	19,326	(19,326)	–
Endowment net assets at end of year	\$ 3,317	\$ 301,384	\$ 304,701

	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

# Puerto Rico Conservation Trust Fund

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

December 31, 2021

### 6. Land and Properties Held for Conservation

The following summarizes the land and properties held for conservation for the years ended December 31, 2021 and 2020.

Land and Properties Held for Conservation	2021	2020
Properties in Corpus:		
Natural Protected Area Hacienda Buena Vista, Ponce	\$ 4,972	\$ 4,958
Natural Reserve Hacienda La Esperanza, Manatí	38,241	37,966
Natural Reserve Las Cabezas De San Juan, Fajardo	11,691	11,568
Natural Reserve La Parguera, Lajas	3,090	3,090
Natural Protected Area Cañón de San Cristóbal, Barranquitas-Aibonito	2,836	2,824
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	1,518	1,515
Natural Reserve of Punta Ballenas	1,705	1,705
Natural Protected Area Río Encantado, Ciales-Florida-Manatí	8,686	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	740	723
Natural Protected Area Río Maricao, Maricao	429	429
Natural Protected Area Cuevas El Convento, Peñuelas-Guayanilla	2,704	2,525
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	1,633	1,486
Natural Protected Area Paraíso Las Lunas	1,588	1,488
Natural Protected Area Finca La Robleda	1,706	1,706
Natural Protected Area Finca Marín Alto	730	720
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
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, 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 Pardas, 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 Río Prieto, Lares	5,251	5,229
Natural Protected Area Finca Bo. Los Ríos Jacoboa, Patillas	1,906	1,906
Natural Protected Area Finca Knowlton, Culebra	2,908	2,820
Natural Protected Area Finca Bo Quebrada Janer, San Lorenzo	1,130	1,130
Natural Protected Area Frank Wadsworth, Cabo Rojo	935	818
Natural Protected Area Ulpiano Casals, San Lorenzo	306	306
Natural Protected Area El Rabanal	152	152
Natural Protected Area Luz Martínez Benítez	9,850	9,850
Natural Protected Area Quebradilla	86	86
Natural Protected Area Finca Henle, Las Marias	52	-
Natural Protected Area Lomas de Guarionex, Camuy	510	-
Natural Protected Area Lomas del Noroeste, Hatillo	1,377	-
Natural Protected Area Others	538	505
	<b>155,933</b>	<b>152,846</b>
Accumulated depreciation of properties in corpus held for conservation	<b>(21,899)</b>	<b>(20,345)</b>
Total costs-properties in corpus	<b>134,034</b>	<b>132,501</b>



# Puerto Rico Conservation Trust Fund

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

December 31, 2021

### 6. Land and Properties Held for Conservation (continued)

Land and Properties Held for Conservation	2021	2020
Undesignated:		
Casa Ramón Power, San Juan	4,681	4,674
Antiguo Edificio Banco de España, San Juan	7	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 Ochoa, San Juan	957	–
Edificio Club de Leones, Barranquitas	590	509
Edificio Roosevelt Roads	179	179
Faro Culebrita, Culebra	586	481
	8,054	6,904
Accumulated depreciation of undesignated properties held for conservation	(1,018)	(740)
Total costs-properties outside corpus	7,036	6,164
Grand total	\$ 141,070	\$ 138,665

Puerto Rico Conservation Trust Fund

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

December 31, 2021

**7. Secured Notes Payable**

Secured notes payable at December 31, 2021 and 2020, consist of the following:

	<b>At Fair Value</b>	
	<b>2021</b>	<b>2020</b>
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 \$6,953 and \$7,993 as of December 31, 2021 and 2020, respectively.	<b>\$ 7,681</b>	<b>\$ 7,993</b>
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 \$47,331 and \$49,626 as of December 31, 2021, and 2020, respectively.	<b>45,748</b>	45,772
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 \$30,677 and \$32,165 as of December 31, 2021, and 2020, respectively.	<b>29,651</b>	29,666
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 \$33,856 and \$34,954 as of December 31, 2021, and 2020, respectively.	<b>34,927</b>	36,696
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, 2021.	<b>96,770</b>	89,915
	<b>\$214,777</b>	<b>\$210,042</b>

Approximate fair value of secured notes payable as of December 31, 2021 and 2020, was \$214,777 and \$210,042, respectively. Approximate fair value of underlying collateral investments securing the notes payable as of December 31, 2021 and 2020, was \$214,777 and \$210,042, respectively.

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

#### **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.

#### **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.

Puerto Rico Conservation Trust Fund

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

December 31, 2021

**9. Functional Expenses (continued)**

Functional expenses for the fiscal year ended December 31, 2021 are summarized below:

	2021			
	Management and General	Fundraising Activities	Program Services	Total
Salaries and vacations	\$ 1,299	\$ 272	\$ 4,407	\$ 5,978
Bonuses	95	21	220	336
Payroll taxes	124	23	582	729
Employee retirement and medical benefits	443	51	1,488	1,982
Non-capitalizable assets	4	–	72	76
Depreciation	22	2	2,453	2,477
General insurance	93	5	352	450
Taxes	84	–	–	84
Library dues, subscriptions, and memberships	59	24	17	100
Advertising	–	–	26	26
Meetings, conference, and seminars	11	–	47	58
Office supplies and postage	15	1	38	54
Other projects costs	21	44	1,197	1,262
Professional services	1,601	204	2,462	4,267
Information systems	202	7	172	381
Security	–	–	840	840
Rent and rental equipment	219	29	336	584
Repairs and maintenance	94	–	698	792
Supplies and materials	4	–	192	196
Travel and representation	51	4	45	100
Utilities	58	11	223	292
Vehicles	67	13	840	920
Other	53	3	23	79
Total	<u>\$ 4,619</u>	<u>\$ 714</u>	<u>\$ 16,730</u>	<u>\$ 22,063</u>

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

#### 9. Functional Expenses (continued)

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

	2020			
	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	\$ 4,831	\$ 709	\$ 16,512	\$ 22,052

#### 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, 2021

#### **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 2021 and 2020, amounted approximately \$550 and \$610, respectively.

#### **12. Puerto Rico Government's Financial Condition**

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.

On May 3, 2017, the Financial Oversight and Management Board for Puerto Rico filed a Title III petition for the Commonwealth of Puerto Rico. On January 18, 2022, the United States District Court for the District of Puerto Rico entered an order under PROMESA confirming a Plan of Adjustment (The Plan) of the Commonwealth of Puerto Rico, the Employees Retirement System of the Government of Puerto Rico, and the Puerto Rico Public Buildings Authority.

## Puerto Rico Conservation Trust Fund

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

December 31, 2021

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

The Plan's confirmation is a significant step toward solving the Commonwealth's and its instrumentalities' ongoing financial crises. The Commonwealth must exercise long-term fiscal discipline for a complete fiscal recovery. The confirmation of the Plan, however, provides optimism that such recovery is possible.

#### **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, 2021, through the date the consolidated financial statements were issued which was June 30, 2022.

In 2022, the markets have experienced corrections and high volatility. The invasion of Ukraine and the increase in the U.S.'s inflation rate have considerably increased market volatility. The Trust's investment portfolio has been negatively impacted by over 15%. The Trust records its investments at market value and has an unrealized loss in 2022. The Trust has a long-term investment strategy and does not trade frequently, hence, these market changes do not directly impact the Trust's financial health or liquidity.

On May 26, 2022, the Trust entered in a secured notes agreement with Banco Popular and FirstBank. The banks subscribed \$13 million and \$11 million, respectively, collateralized with 2022 Senior Notes of Aerostar at a coupon rate of 4.92%. The notes mature on March 22, 2035. The Trust's spread is 30 base points, representing an annual income of \$72 thousand. The transaction will be funded on July 21, 2022, with coupon dates starting on September 22, 2022.

# Supplementary Information



Puerto Rico Conservation Trust Fund

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

Year Ended December 31, 2021

	Program Expenses							Total
	Management and Support	Fundraising	Outreach & Communications	Land Acquisition Support	Education, Science Public Policy	Reforestation & Resilience	Other Funded Projects	
Investment fees and expenses:								
Commissions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Custodial fee	-	-	-	-	-	-	-	-
Notaries and closing	-	-	-	-	-	-	-	-
Legal and financial counsel and other expenses	-	-	-	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other expenses:								
Salaries and vacations	\$ 1,299	\$ 272	\$ 396	\$ 261	\$ 404	\$ 572	\$ -	\$ 2,774
Bonuses	95	21	16	22	18	28	-	136
Payroll taxes	124	23	38	24	51	85	-	384
Employee retirement and medical benefits	442	51	118	60	116	183	-	1,011
Non-capitalizable assets	4	-	-	-	-	-	-	72
Depreciation	22	2	14	2	3	69	-	2,365
General insurance	59	5	6	6	5	26	-	309
Taxes	84	-	-	-	-	-	-	84
Library dues, subscriptions, and memberships	59	24	5	3	3	-	-	6
Advertising	-	-	25	-	-	-	-	1
Meetings, conference, and seminars	7	-	1	-	24	7	-	15
Office supplies and postage	15	1	5	-	2	2	-	29
Other projects costs	12	44	80	-	73	39	535	470
Professional services:								
Temporary services	-	-	-	-	-	239	-	115
Consultant	1,045	204	545	6	526	13	420	598
General legal fees	352	-	-	-	-	-	-	-
Auditing and accounting fees	204	-	-	-	-	-	-	-
Information systems	186	7	26	15	29	10	-	92
Security	-	-	2	-	-	-	-	838
Rent and rental equipment	214	29	80	27	46	22	-	161
Repairs and maintenance	94	-	1	-	1	53	-	643
Supplies and materials	4	-	6	-	3	42	-	141
Travel and representation	20	4	-	5	5	-	9	26
Trustees and advisory counsel expenses	113	-	-	-	-	-	-	-
Utilities	58	11	8	7	9	26	-	173
Vehicles	54	13	18	17	19	224	-	562
Other	53	2	6	1	-	-	-	17
Total	\$ 4,619	\$ 713	\$ 1,396	\$ 456	\$ 1,337	\$ 1,640	\$ 964	\$ 10,938
								\$ 22,063

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

Year Ended December 31, 2021

	Natural				North Region	South Region	West Region	East Region	San Juan Region	Jagüey Agro	Total
	Protected Areas	Eco D'Tour	Ecolodges	Grants							
Salaries and vacations	\$ 268	\$ 98	\$ 138	\$ -	\$ 548	\$ 604	\$ 91	\$ 572	\$ 455	\$ -	\$ 2,774
Bonuses	21	4	6	-	26	27	8	24	20	-	136
Payroll taxes	30	13	20	-	80	86	11	80	64	-	384
Employee retirement and medical benefits	71	24	57	-	241	218	22	211	167	-	1,011
Non-capitalizable assets	2	1	59	-	3	1	-	4	2	-	72
Depreciation	56	12	86	-	1,056	252	41	462	400	-	2,365
General Insurance	15	4	15	-	85	40	4	81	65	-	309
Library dues, subscriptions, and memberships	2	-	-	-	1	1	-	1	1	-	6
Advertising	-	-	-	1	-	-	-	-	-	-	1
Meetings, conference, and seminars	-	-	3	-	3	3	1	3	2	-	15
Office supplies and postage	1	1	3	-	6	6	1	5	6	-	29
Other projects costs	2	52	30	351	15	5	-	9	6	-	470
Professional services:											-
Temporary services	-	-	-	-	69	-	10	9	-	27	115
Consultants	73	-	57	311	61	29	-	18	49	-	598
Information systems	18	4	2	-	15	16	1	16	20	-	92
Security	-	-	121	-	229	121	-	248	119	-	838
Rent and rent equipment	40	5	1	2	21	24	11	39	18	-	161
Repairs and maintenance	16	3	158	-	215	104	15	84	43	5	643
Supplies and materials	19	1	15	13	45	10	4	20	12	2	141
Travel	-	(1)	3	15	1	2	1	5	-	-	26
Utilities	10	3	6	-	37	22	3	42	49	1	173
Vehicles	48	45	36	-	99	76	22	142	90	4	562
Other	1	-	2	-	1	4	-	4	3	2	17
<b>Total</b>	<b>\$ 693</b>	<b>\$ 269</b>	<b>\$ 818</b>	<b>\$ 693</b>	<b>\$ 2,857</b>	<b>\$ 1,651</b>	<b>\$ 246</b>	<b>\$ 2,079</b>	<b>\$ 1,591</b>	<b>\$ 41</b>	<b>\$ 10,938</b>



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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, 2021, 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, 2022.

### Report on 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 or significant deficiencies may exist that have not been identified.

## **Report on 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, 2022

Stamp No. E486317 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

### ***Opinion on Each Major Federal Program***

We have audited Puerto Rico Conservation Trust Fund (the Trust)'s compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Trust's major federal programs for the year ended December 31, 2021. 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.

In our opinion, the Trust complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Trust's compliance with the compliance requirements referred to above.

### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Trust's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Trust's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Trust's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Trust's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the trust's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Trust's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2021 and have issued our report thereon dated June 30, 2022, 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 of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst + Young LLP*

March 31, 2023

Stamp No. E512433 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, 2021

Federal Grantor / Program or Cluster Title	Direct Federal Awards Expenditures	Indirect Federal Awards Expenditures	Total Expenditures
<b>US Department of Agriculture</b>			
10.U01 Joint Chief Initiative	\$ 11,801	\$ –	\$ 11,801
10.678 Forest Stewardship Program	84,949	–	84,949
10.912 Environmental Quality Incentives Program	29,145	–	29,145
10.351 Rural Business Development Grant	95,000	–	95,000
<b>Total US Department of Agriculture</b>	<b>220,895</b>	<b>–</b>	<b>220,895</b>
<b>US Department of Commerce</b>			
11.482 Coral Reef Conservation Program	16,300	–	16,300
11.473 Office for Coastal Management	103,623	–	103,623
<b>Total US Department of Commerce</b>	<b>119,923</b>	<b>–</b>	<b>119,923</b>
<b>National Aeronautics and Space Administration</b>			
43.001 Science	51,228	–	51,228
<b>Total National Aeronautics and Space Administration</b>	<b>51,228</b>	<b>–</b>	<b>51,228</b>
<b>United States Department of Homeland Security</b>			
97.036 Disaster Grants Public Assistance (Presidentially Declared Disasters)	123,007	–	123,007
<b>Total United States Department of Homeland Security</b>	<b>123,007</b>	<b>–</b>	<b>123,007</b>
<b>US Department of Interior</b>			
15.657 Endangered Species Recovery Implementation	408,938	40,894	449,832
15.631 Partners for Fish and Wildlife Program	2,293	–	2,293
<b>Total US Department of Interior</b>	<b>411,231</b>	<b>40,894</b>	<b>452,125</b>
<b>Total Expenditures of Federal Awards</b>	<b>\$ 926,284</b>	<b>\$ 40,894</b>	<b>\$ 967,178</b>

See accompanying notes.

# Puerto Rico Conservation Trust Fund

## Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2021

### **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. 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, 2021

#### **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, 2021

**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, 2021

**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, 2021

**Section III – Federal Award Findings and Questioned Costs**

None reported.

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