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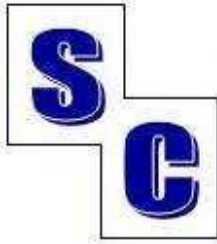
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Guatemala, Guatemala

PEACE BRIGADES INTERNATIONAL GUATEMALA PROJECT

AUDIT REPORT 2008 FINANCIAL STATEMENTS

GUATEMALA, OCTOBER 2009



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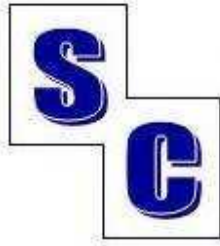
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A REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANT AND AUDITOR

.

Administrative Body

Peace Brigades International

Dear Sirs,

I have audited the attached financial statements of the organization **Peace Brigades International – Guatemala Project**, which include the Balance Sheet to 31 December 2008, and the Income Statement for the period 1 January to 31 December 2008.

The administrative body of **Peace Brigades International – Guatemala Project** is responsible for the reasonable preparation and presentation of the aforementioned financial statements, which were drawn up in accordance with the accounting procedures described in Note 3 of this report. The responsibilities of the administrative body of **Peace Brigades International – Guatemala Project** include developing, implementing and maintaining the corresponding internal controls over the reasonable preparation and presentation of financial statements free of significant misrepresentations, whether fraudulent or erroneous; selecting and applying the appropriate accounting practices and performing accounting estimates that are reasonable under the circumstances.

My responsibility is to issue an opinion on these financial statements based on the audit performed. I performed the audit in accordance with international auditing standards. I am obliged by these standards to meet ethical requirements, as well as to plan and perform the audit to determine with reasonable security that the financial statements are free of relatively significant misrepresentations. An audit entails the fulfillment of procedures to obtain proof of the amounts and disclosures in the financial statements. The selected procedures are based on the auditor's criteria, including the

assessment of the risk of significant misrepresentations in the financial statements, whether due to irregularities or error. In disclosing these risks, the auditor considers the internal controls necessary under the circumstances for the preparation and presentation of the audit, but not for the purpose of judging the effectiveness of the organization's internal controls. An audit also involves assessing the appropriateness of the accounting policies and the reasonableness of the accounting estimates performed by the administration, as well as an evaluation of the general presentation of the financial statements.

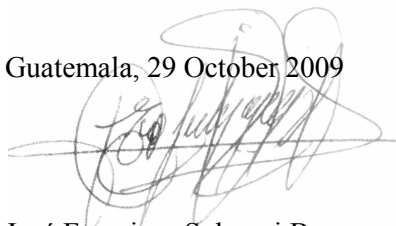
Before issuing an opinion, I must note the following situation, explained in the two paragraphs below:

The financial statements that have been submitted come from two distinct sources characterized as "Inside Guatemalan territory" and "Outside of Guatemalan Territory," both of which form part of the "Guatemala Project," as I explain in more detail in Note 2 of this report.

In March 2009, I performed an external audit using the financial data from "Inside Guatemalan Territory." These figures were used again for "Outside Guatemalan Territory." Upon a review of the data, I noted changes with respect to the original figures examined. Having found discrepancies, I had to propose amendments which have now been included on the audited Balance Sheet. These amendments are detailed in the Letter to Management attached to this report.

In my opinion, taking into account the situation explained in the two paragraphs above, the Balance Sheet to 31 December 2008, and the Income Statement from 1 January to 31 December 2008 of the **Peace Brigades International – Guatemala Project** reasonably reflects the organization's financial situation in all aspects, and are arranged in accordance with the accounting principles described in Note 3 of this report.

Guatemala, 29 October 2009



José Francisco Subuyuj Boc.

Certified Public Accountant, Reg. No. 7,761 (Guatemala)

José Francisco Subuyuj Boc
Contador Público y Auditor
Colegiado No. 7761

B. FINANCIAL STATEMENTS

**PEACE BRIGADES INTERNATIONAL
GUATEMALA PROJECT
BALANCE SHEET
31 December 2008
(in euros)**

ASSETS		12,239.48
LIQUID ASSETS		
Current accounts and cash, office	9,900.06	
Current accounts and cash, team	8,153.58	
Interest-bearing accounts	60,000.00	
Receivable grants	48,914.29	
Pre-paid expenses	981.96	
Accounts receivable	2,100.73	
TOTAL LIQUID ASSETS		130,050.62
LIABILITIES		
Accrued liabilities	1,384.67	
Provisions	1,500.00	
Accrued expenses	6,253.44	
Deferred income	2,506.34	
Funds owed to central accounts	3,290.48	
TOTAL LIABILITIES		14,934.93
CURRENT NET ASSETS		115,115.69
TOTAL ASSETS		127,355.17
Accrued funds carried forward		
Accrued funds carried forward	100,248.27	
Surplus	27,106.90	
		127,355.17

Read Notes to the Financial Statements as part of the same.

**PEACE BRIGADES INTERNATIONAL
GUATEMALA PROJECT
INCOME STATEMENT
From 1 January to 31 December 2008
(in euros)**

Official grants		250,087.62
Public grants	25,550.68	
Private donations	217,748.67	
Individual donations	612.60	
Short-term deposit interest	959.98	
Positive exchange difference	2,543.70	
Extraordinary income	2,671.99	
PURCHASES AND EXPENSES		222,980.72
PURCHASES AND EXPENSES a)	222,980.72	
Total funds expended	<u>222,980.72</u>	27,106.90

a) This category could not be itemized because of the way in which PBI presents the payments. However, the total amount is considered reasonable.

Read Notes to the Financial Statements as part of the same.

C. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION ABOUT THE ORGANIZATION

We were provided with a photocopy of Deed No. 25 from the lawyer and notary public Jose Arturo Sierra Gonzales in Guatemala City dated Fourteen May Nineteen Hundred and Eighty-Five, in which “notarization proceedings” began for the Deed of Incorporation of Peace Brigades International executed in the State of Washington in the United States of America. This deed has been translated into Spanish by the sworn translator Yolanda Mata. These documents were received by the Head of the Information Reception Section of the Ministry of Foreign Affairs of the Republic of Guatemala on 11 March 1985. As a whole, these documents are proof of the registration of the incorporation of Peace Brigades International (PBI) of an office (associated party) before the State of Guatemala under the name **Sociedad Brigadas de Paz Internacionales**. Peace Brigades International is referred to in this report as PBI, and its audited associated partner as the **PBI Guatemala Project**.

Montserrat García was the Project Coordinator from 2003 to December 2008, according to information we received in an e-mail dated 29 October 2009. At the date of this audit, the coordinator was Cristina Barbeito Vázquez, according to the relevant document signed by Steven Molnar, President of PBI.

The current legal representative of the **PBI Guatemala Project** is Marina Comandulli, as reflected in the General Judicial Records Archive under number 10 of POWER OF ATTORNEY No. 753541, dated 19 May 2009. This power of attorney is also registered at the Unified Tax Registry of the Office of the Tax Administration Superintendent (SAT).

The PBI Guatemala Project’s registered office is 3^a Avenida A 3-51 zona 1 in Guatemala City. According to information we received by telephone, the office in Spain is located at Plaza Manuel Granero 9, Puerta 18, 46006, Valencia.

In order to pursue its goals and objectives, the **PBI Guatemala Project** receives support from international agencies. These agencies form cooperative alliances with the project and are its main source of funding. These funds are received by other associated entities of PBI outside of Guatemala. These entities then transfer the funds to the Guatemala Project.

NOTE 2. SOURCE DOCUMENTS AND SCOPE OF THE AUDIT

As noted in the Report (page 4), the Financial Statements submitted by **PBI Guatemala Project** for the audit came from two document sources, i.e. those labeled as “inside Guatemalan territory” and those labeled as “outside of Guatemalan territory.” These labels are clear, as the former refers to documents originating and used in the country in which the project is carried out, and the latter to documents that PBI elaborates outside of Guatemala but that always apply to the aforementioned project. However, upon a close examination, the External Auditor found a series of problems, including: the currency unit, the arrangement of headings, and the transfer of accounts from each source. There were also restrictions regarding communication, although the parties always acted in good faith, i.e. those responsible for registry of information in Spain and the External Auditor located in Guatemala City. All of these restrictions caused more time delays than planned and were obstacles to the performance of the checks originally foreseen under the audit. Therefore, supplementary checks and procedures were performed in order to make a reasonable assessment of the figures examined.

This External Auditor is not familiar with the global financial transactions of Peace Brigades International (PBI) or associated entities. Consequently, the scope of the present audit covers an examination of the material amounts in the financial statements of the **PBI Guatemala Project** based on their account records and financial data for the period of 1 January to 31 December 2008.

For the documents from “outside of Guatemalan territory,” we received copies. We did not view the official accounting books, PBI is not required to keep these in Spain, according to representatives of the organization.

NOTE 3. ACCOUNTING PROCEDURES

The PBI Guatemala Project follows a series of accounting procedures based on a cumulative financial data registry. These procedures are based on double entry accounting. During the audit, we were able to verify that the organization’s income is handled on a cash-received basis, while expenses are treated on the basis of accrual, which consists of posting the payments on the date they are made, regardless of where they are paid.

NOTE 4. NAME ON THE AUDITED FINANCIAL STATEMENTS

The **PBI Guatemala Project** was the party responsible for drawing up the financial statements and provided the following documents for this External Audit:

- 1) Balance Sheet to 31 December 2008
- 2) 2008 Income Statement

The administrative body of the **PBI Guatemala Project** should instruct its accounting department to make the adjustments proposed as a result of this audit so that their figures fully agree with the financial statements of this report.

NOTE 5. CURRENCY

The Guatemalan currency is the quetzal. The financial transactions “within Guatemalan territory” were carried out with this currency. The transactions “outside of Guatemalan territory” were carried out with different currencies, including the US dollar and the euros.

For the arrangement and presentation of the financial report in this document, all amounts are converted to euros, as shown in the financial statements and tables.

NOTE 6. INCOME

During the period audited, **PBI Guatemala** received financial support from its counterparts. It received income from interest-earning bank accounts. According to records, the income for this period was (see next page):

Donor	Total Income
PBI Germany	83,218.16
PBI United Kingdom	16,212.94
PBI Switzerland	9,724.79
PBI Italy	2,800.00
PBI Canada	13,670.00
PBI Luxembourg	10,000.00
PBI Netherlands	5,000.00
PBI Belgium	317.00
PBI USA	4,845.83
PBI Spain	16,200.00
PBI France	27,312.65
TOTAL OF COUNTRY GROUPS	189,301.37
Direct fundraising	35,150.00
Voluntary contributions	909.01
Individual donations	3.64
Bank interest	959.98
Others	4,919.28
TOTAL DIRECT FUNDRAISING	41,941.91
Deferred funds from 2007 to 2008	21,350.68
Deferred funds from 2008 to 2009	-2,506.34
TOTAL INCOME	250,087.62

NOTE 7. ARRANGEMENT OF BALANCE SHEET ITEMS

At the close of the accounting period on 31 December 2008, the assets and liabilities reflected on the Balance Sheet were arranged as follows:

7.1 FIXED ASSETS

TANGIBLE FIXED ASSETS	12,239.48
Data processing equipment	12,239.48
COMPTEC	330.52
HP Dual Core DX2400 computer	452.29
Compaq Presario laptop computer	989.87
Computer equipment (not itemized)	3,473.40
Household items	686.50
Communication equipment	709.57
Furniture	3,329.30
Other assets	2,268.03

7.2 Accounts receivable

Accounts receivable	2,100.73
Kerstin Reemtsma	890.00
PBI GERMANY	913.36
Deposit house 3°Av A, 3-51	297.37

7.3 Receivable grants

Receivable grants	48,914.29
CPS Inter Proyectos	7,704.48
Extra CPS 2007	9,329.00
Waltwaerts	4,568.16
MAE France	27,312.65

7.4 Pre-paid expenses

Pre-paid expenses	981.96
Pre-paid expenses	981.96

7.5 Liabilities

Accrued Liabilities	1,384.67
Income tax withheld	918.90
Cristina (coordinator)	7.35
Office (Mayte)	21.76
Jacqueline Benfield	310.72
Valerie	29.45
Photo publications	0.00
EMPAGUA (water)	0.00
VAT taxes payable	96.49

Provisions	1,500.00
Provisions for obligations	1,500.00
Accrued expenses	6,253.44
Income carried forward	6,253.44
Deferred Income	2,506.34
RMLaing	2,506.34
Funds from central accounts	3,290.48
ISEC	3,290.48

7.6 REPRESENTATION

Accrued funds carried forward	100,248.27
Surplus	27,106.90
	127,355.17

NOTE 8. ARRANGEMENT OF ITEMS ON THE INCOME STATEMENT

As a result of all financial transactions carried out by the **PBI Guatemala Project** for the year 2008, income statement items were arranged as follows:

8.1 INCOME

INCOME (grants/donations)	
Public grants	25,550.68
Private donations	217,748.67
Individual donations	612.60
Interest from short-term deposits	959.98
Positive exchange difference	2,543.70
Extraordinary income	2,671.99
Total Income	250,087.62

8.2 EXPENSES PBI GUATEMALA PROJECT 2008

PURCHASES AND EXPENSES	222,980.72
Lease of 7a Avenida 1/13	9,237.38
Other leases in Guatemala	1,089.55
Leases outside Guatemala	2,531.51
Repairs and conservation	542.11
Computer services	1,279.57
Accounting services	12,254.39
Translations	2,514.88
Legal services	291.67
Fees trainers/experts	1,502.00
Auditing services	1,500.00
Other services	3,476.59
Transportation	7,860.79
Transportation – flights	32,906.45
Health insurance	6,787.30
Bank fees	978.24
Publications	1,451.12
Books, newspapers	530.62
Public relations	0.00
Photography	60.52
Telephone (Telgua)	1,489.61
Water	978.53
Electricity	1,777.34
Gas	153.49
Telephone (mobile and Skype)	641.87
Mail	2,396.11
Supplies and office goods	4,947.91
Photocopies	664.68
Maintenance	938.11
Household equipment	911.91
Furniture	0.90
Food	15,585.94
Legal fees	2,125.23
Other services	5,588.84
Bank interest tax	196.06
Income tax/VAT	
Guatemala	428.45
Wages and salaries	37,677.42
SS paid by the organization	11,345.91
Stipends	12,633.47

Repatriation	4,132.77
Committee stipends	11,100.00
International Secretariat	17,284.00
Others	333.35
Negative exchange differences	2,816.63
Extraordinary expenses	37.50

The expenses have been classified in accordance with the organization’s accounting nomenclature.

NOTE 9. INTERNAL CONTROLS

The following is a summary of the internal controls we observed in “Guatemala territory.”

9.1 Income: As indicated in Note 6, the **PBI Guatemala Project** transfers the funds to the aforementioned financial accounts opened for this purpose. Money is received in the local currency (quetzal) so that no exchange is necessary at the local level.

9.2 Account Holders and the Financial Subcommittee: The following volunteers were authorized to draw on the bank accounts in 2008:

AUTHORIZED SIGNATURES
Silvia Weber Caroline Tessier Valerie Elsig

The **PBI Guatemala Project** appoints a group of volunteers who control and manage the financial resources. This group is responsible for communicating with the accounting firm which records transactions in Guatemala. This accounting firm is designated as the Finance Sub-Committee.

9.3 Request for expenses: Those in charge of the technical tasks carried out by volunteers in Guatemala, as well as administrative tasks, “request the funds to be used” and apply to the Finance Sub-Committee for the amount to be spent.

9.4 Checks: Checks are issued in the necessary amounts on the basis of requests from the volunteers. Checks are issued directly to the provider of the product or service when the amounts and recipients are known.

9.5 Cash payments: Some payments are only made in cash because this is all the provider of the goods or services in Guatemala will accept. In these cases, the volunteers are responsible for delivering the cash, which has been requested beforehand.

9.6 Documentation of the expenditure: Those responsible for paying expenses, i.e. the volunteers, request an invoice from the supplier to document the transactions.

9.7 Stipends for volunteers: In 2008, each volunteer received a monthly stipend of approximately Q1382.33, the equivalent of USD175.00. This stipend is always paid in quetzals at the current exchange rate. This payment is documented with an internal receipt.

9.8 Special Invoice: There are some suppliers of goods and services who are not registered with the Tax Authority. Under current tax laws in the country, a “special invoice” is used for these expenses, and the value-added and personal income taxes are charged. This invoice serves as documentation of the expense.

9.9 Control of expenses: Internally, the financial subcommittee controls expenses in accordance with the nomenclature it has established, grouping all payments chronologically. The invoices and receipts for expenses are glued to sheets of bond paper, which are stamped with the date and amount in the upper right corner and numbered consecutively.

9.10 Transfer of documents: The accounting process is handled by the public accounting firm Requena & Asociados in Guatemala City. This firm transfers the documents each month using a seal for the control of expenses as described in the previous paragraph. Among the transferred

documents are the bank statements containing the income received.

9.11 Accounting Records: The accounting records are processed by Requena & Asociados. In short, this process entails the following:

- Verification of the tax calculation for special invoices
- Preparation of tax declarations in accordance with special invoices
- Payment of taxes
- Digital conversion of expense data for entry into “purchases” module
- Digital conversion of income data
- Data processing
- Preparation of accounting items in the journal
- Centralization of information in the general ledger
- Preparation of information in one volume using the trial balance
- Preparation of income statement
- Preparation of cash flow statement
- Preparation of balance sheet
- Submission of expense report and tax payment form (the originals are in the firm’s archives and at the disposal of PBI).

The firm has an accounting program which it uses for most of the process, as well as supplemental electronic worksheets for drawing up specific reports.

9.12 Accounting nomenclature: This tool was designed by PBI and provided to Requena & Asociados to code all financial data.

9.13 Accounting books: These are the permanent records containing the organization’s financial history. At the time of this External Audit, these books were up to date.

NOTE 10. TAX ISSUES AND COMPLIANCE

From a tax perspective, the associated party, **Peace Brigades International**, with operations in Guatemala, must comply with the tax requirements listed below.

After each requirement, there is a comment from the External Auditor regarding compliance therewith. To repeat, these requirements are those that are inherent to PBI and which apply in Guatemalan territory.

10.1 Registering and keeping tax information up to date: Any organization operating in Guatemala must register with the Tax Authority and update its tax information at least yearly.

Comment: The organization has been registered since 13 August 2003, the date on which its tax obligations began. The organization's information is updated annually, at which time a change in the appointment of the organization's legal representative is also reported.

10.2 Tax exempt status: As a non-profit entity, the organization is entitled to this status, although it continues to act as a tax withholding agent (as in the case of the special invoice, on which it withholds VAT and income taxes).

Comment: The organization first applied for this exemption upon its registration. It was granted the exemption on 14 November 2003. This status also exempts the organization from paying income tax on the donations it receives, and value-added tax on any services it provides, as well as other taxes.

10.3 Income Tax Withholding and Transfer: For the purchase of goods and services, if indicated by the taxpayer on the invoice issued to it, Peace Brigades International must withhold the income tax, in order to transfer it to the treasury later.

Comment: The organization complies with this obligation each month.

10.4 VAT Withholding and Transfer: See item 10.3.

Comment: The tax is withheld and transferred each month. All of the corresponding forms are filed and the taxes are duly paid to the state treasury.

10.5 Sworn Annual Income Tax Declaration: This must be signed and sealed by the appointed legal representative and accountant, and should include its annex.

Comment: The organization has complied with this obligation since 2003 in Guatemala. The 2008 declaration was filed with SAT Form No. 1192 0479187 on 17 March 2009.

10.6 Special Invoice: As indicated in Note 9.8, this invoice should only be used when the provider does not issue its own invoice.

Comment: The organization complied with this in 2008.

10.7 Updating of accounting books: The law requires these to be updated no later than two months after the effective date.

Comment: As indicated in Note 9.13, these books were duly up to date at the time of the audit.

10.8 Inventory: An inventory of durable goods must be performed at least once a year.

Comment: This inventory was performed in 2008.

NOTE 11. LETTER TO MANAGEMENT

The observations and recommendations of the external auditor are presented on the following pages under the name “Letter to Management.”