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PEACE BRIGADES INTERNATIONAL GUATEMALA PROJECT

AUDIT REPORT ON THE 2009 FINANCIAL STATEMENT

GUATEMALA, SEPTEMBER 2010



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REPORT OF THE INDEPENDENT PUBLIC ACCOUNTANT AND AUDITOR

Administrative Body

Peace Brigades International

Dear Sir or Madam,

I have audited the attached financial statements of the organization **Peace Brigades International - Guatemala Project**, which include the Balance Sheet to 31 December 2009, and the Income Statement for the period 1 January to 31 December 2009.

The administrative body of **Peace Brigades International – Guatemala Project** is responsible for the reasonable preparation and presentation of the aforementioned financial statement, which was 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.

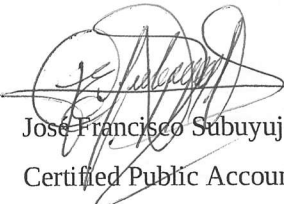
My responsibility is to issue an opinion on these financial statements based on the audit performed. I performed the audit in accordance with international auditing standards. I am obliged by these standards to meet ethical requirements, as well as to plan and perform the audit to determine with reasonable 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.

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 my opinion, the Balance Sheet to 31 December 2009, and the Income Statement from 1 January to 31 December 2009 of the **Peace Brigades International - Guatemala Project** reasonably reflect the organization's financial situation in all important aspects, and are arranged in accordance with the accounting principles described in Note 3 of this report.

Guatemala, 16 September 2010


José Francisco Subuyuj Boc. *Lic. José Francisco Subuyuj Boc*
Certified Public Accountant, Reg. No. 7,761 (Guatemala) Contador Público y Auditor
Colegiado No. 7761

B. FINANCIAL STATEMENTS

**PEACE BRIGADES INTERNATIONAL
GUATEMALA PROJECT
BALANCE SHEET
AT 31 DECEMBER 2009
(in Euros)**

ASSETS		
CURRENT ASSETS		86,162.49
CASH AND BANKS	75,286.46	
Cash and banks inside Guatemala	7,972.19	
Cash and banks outside Guatemala	<u>67,314.27</u>	
ACCOUNTS RECEIVABLE	10,876.03	
Accounts receivable inside Guatemala	660.98	
Accounts receivable outside Guatemala	<u>10,215.05</u>	
NON-CURRENT ASSETS		7,241.86
PROPERTY, PLANT AND EQUIPMENT	7,241.86	
TOTAL ASSETS		<u>93,404.35</u>
LIABILITIES		
CURRENT LIABILITIES		10,413.95
ACCOUNTS PAYABLE	10,413.95	
Accounts payable inside Guatemala	3,622.87	
Accounts payable outside Guatemala	<u>6,791.08</u>	
NET ASSETS		82,990.40
NET ASSETS	82,990.40	
TOTAL LIABILITIES AND NET ASSETS		<u>93,404.35</u>

The Notes to the Financial Statements are understood to be part of the same.

**PEACE BRIGADES INTERNATIONAL
GUATEMALA PROJECT
INCOME STATEMENT**

From 1 January to 31 December 2009

(in Euros)

INCOME		186,607.84
DONATIONS	183,258.22	
INVESTMENT INCOME	843.28	
DEFERRED INCOME	2,506.34	
EXPENSES		230,972.61
STIPENDS, FOOD AND MEDICAL INSURANCE	40,757.78	
START-UP COSTS	12,423.18	
COMMUNICATION	2,140.88	
PROJECT PUBLICATIONS	4,698.37	
OFFICE EQUIPMENT AND CONSUMABLES	4,677.29	
TRAVEL, TRANSPORT AND LODGING	21,073.45	
PROFESSIONAL SERVICES	11,248.18	
OTHER EXPENSES	6,915.33	
TRAINING	11,309.01	
TRAINING SUPERVISOR'S SALARY	7,749.93	
EVENTS AND WORKSHOPS	4,655.92	
PROJECT MEETINGS	6,328.24	
REGIONAL SUPPORT WORK	9,220.80	
OFFICE SALARIES, INCL. SOCIAL SECURITY	61,351.14	
OFFICE EXPENSES	1,346.85	
OTHER EXPENSES	7,595.61	
INTERNATIONAL SUPPORT	17,480.65	
Difference between income and expenses		-44,364.77

The Notes to the Financial Statement are understood to be part of the same.

C. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION ABOUT THE ORGANIZATION

For the preparation of this audit, 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**, which is registered with the Tax Authority of this country under the tax identification number (NIT) 3415796-4. Peace Brigades International is referred to in this report as PBI, and its audited associated partner as the **PBI Guatemala Project**.

The project 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 Silvia Weber, as reflected in the General Judicial Records Archive under number 12 of POWER OF ATTORNEY No. 753541, dated 5 November 2009. This power of attorney is also registered at the Unified Tax Registry of the Office of the Tax Administration Superintendent (SAT).

The previous representative was Marina Comandulli, as reflected in the General Judicial Records Archive under number 10 of POWER OF ATTORNEY No. 753541, dated 19 May 2009, until November of the same year, when she was substituted by Silvia Weber.

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

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 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, after conducting the appropriate examinations, the auditor discovered a series of problems in the first four months of 2010, including: the lack of documents paid by means of transfers, particularly regarding bank transactions outside of Guatemala. Starting in May, this situation was corrected and payments carried out by electronic transfer charged to the bank were documented in detail.

However, in the case of income, the situation was not corrected. There was no analytical control of donors, which makes it difficult both for the accounting firm as well as for the review process to include these transactions.

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 accounting records and financial data for the period of 1 January to 31 December 2009.

For the documents from “outside of Guatemalan territory,” we received copies, since these records are accounted for in electronic databases which are sent in Excel sheets from Spain. These should match the payments of the bank. However, without more details on the information provided, it is difficult to include them. 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 2009
- 2) 2009 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 in 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.

Read the following page

Income		
Donations		
PBI-Belgium		1,745.27
PBI-Italy		3,000.00
PBI-Switzerland		20,055.24
PBI-Germany		87,845.00
Misereor	41,650.00	
Zivik	30,000.00	
ZFD-SCP (several contributions)	15,000.00	
ZFD-SCP (Inter-projects)	-1,850.44	
Weltwaerts	3,045.44	
PBI Spain		40,937.00
AECID	34,700.00	
Camargo municipal gov. (Cantabria)	6,237.00	
PBI-UK		12,909.65
Sigrid Rausing Trust Fund	12,909.65	
PBI Catalunya ACCD		8,000.00
PBI-USA Overbrook Foundation		2,026.63
Oxfam-Belgium		6,000.00
Other Income		739.43
Contributions training participants	739.43	
Investment income		843.28
Bank interest	843.28	
Income deferred to following year		2,506.34
Maurice Rufford Laing	2,506.34	
TOTAL INCOME		186,607.84

NOTE 7 ARRANGEMENT OF BALANCE SHEET ITEMS

At the close of the accounting period on 31 December 2009, the assets and liabilities reflected on the Balance Sheet were arranged as follows:

7.1 Cash and Bank

Cash and Bank		75,286.46
Inside Guatemala	7,972.19	
Team cash	3,017.52	
Banco Reformador	3,594.32	
Banco Industrial	1,360.35	
Outside Guatemala	67,314.27	

La Caixa (new account)	34,228.26
La Caixa (certificate of deposit)	20,000.00
Caja Cantabria	13,086.01

7.2 Accounts Receivable

Accounts receivable		10,876.03
Inside Guatemala	660.98	
Advances to the team	152.53	
Deposits	508.45	
Outside Guatemala	10,215.05	
Donations and grants pending	10,011.68	
Current acct. PBI International Sec.	203.37	

7.3 Property, Plant and Equipment

Property, Plant and Equipment		7,241.86
Household items	780.92	
Communications equipment	807.16	
Computer equipment	7,160.72	
House, office furniture	3,888.87	
Misc., structural changes house/office	2,579.95	
Accum. depreciation household items	-312.37	
Accum. depreciation communication equipment	-322.86	
Accum. depreciation computer equipment	-4,773.34	
Accum. depreciation house, office furniture	-1,535.21	
Accum. depreciation other items	-1,031.98	

7.4 Accounts Payable

Accounts payable		10,413.95
Inside Guatemala	3,622.87	
Provisions	974.54	
Accounts payable	729.54	
Taxes to be paid	97.78	
Debts with personnel (repatriation)	208.33	
Debts with team (repatriation)	1,444.41	
Debts with team (expenses December).	168.27	

Outside Guatemala	6,791.08
Provisions	700.00
Cumulative expenses medical insurance	4,509.32
Debts with personnel	348.60
Quarterly taxes to be paid Spain	567.90
Spanish Social Security	665.26

7.5 Net Assets

Net assets at the close of the accounting period	82,990.40
Assets at the start of the accounting period	127,355.17
Results of the accounting period	<u>-44,364.77</u>

NOTE 8:. ARRANGEMENT OF THE INCOME STATEMENT ITEMS

As a result of all financial transactions carried out by the **PBI Guatemala Project** for the year 2009, income statement items were arranged as follows:

8.1 INCOME

Income	186,607.84
PBI-Belgium	1,745.27
PBI-Italy	3,000.00
PBI-Switzerland	20,055.24
PBI-Germany	87,845.00
PBI-Spain	40,937.00
PBI-UK	12,909.65
PBI-Catalonia	8,000.00
PBI-USA	2,026.63
Oxfam-Belgium	6,000.00
Contributions training participants	739.43
Investment income	843.28
Deferred income following year	2,506.34

8.2 EXPENSES PBI-GUATEMALA PROJECT - 2009

Inside Guatemala	
Human Resources/Volunteer Support	40,757.78
Economic support volunteers	12,702.18
Repatriation	4,239.73
Food	17,142.01
Health insurance	6,673.86
Start-up	12,423.18
Rent	8,138.02
Gas, electricity, water, trash.	2,977.04
Repairs of furniture, home/office security	655.15
Depreciation household items	151.72
Depreciation other items	501.25
Telephone / Communications	2,140.88
Telephone, mobile phones, fax	1,674.84
Mailing info packet, post	309.22
Deprec. communication	156.82
Project Publications	4,698.37
Training material	415.42
Printing publications, editing material	1,804.09
Mailing of publications	678.86
Project website	1,800.00
Office Guate: equip. and consumables	4,677.29
Equipment office < GTQ 2500	37.13
Materials and consumables office	1,407.14
Photocopies	159.00
Depreciation furniture	755.55
Deprec. computer equipment	2,318.47
Travel expenses	21,073.45
Local transport team	4,176.34
Int. transport team and training supervisor	16,220.04
Speaking tours, lodging, accompaniment	677.07
Visas and professional service	11,248.18
Prof. serv. accountant	2,169.90
Prof. serv. auditor	2,311.53
Prof. serv. psychologist mental health	258.35
Prof. serv. translator	2,818.08
Technical support: computers	3,690.32
Other expenses	6,915.33
Processing visas for volunteers	3,628.14
Bank fees (transfers)	11.02
Unforeseen, other expenses	3,276.17

Expenses outside Guatemala	
Education, training volunteers	11,309.01
Stipends educators/trainers	1,400.00
Transport	3,564.61
Food	1,034.71
Lodging	2,168.66
Materials	102.51
Grants for participants	1,400.00
Other	1,638.52
Salaries training supervisors	7,749.93
Salary, training leader	7,749.93
Expenses for events and collaborators (Workshops, travel, materials, locale, stipend authors and translator)	4,655.92
Food	41.88
Lodging	285.82
Local transport	71.61
International transport	2,978.69
Stipend	1,277.92
Project meetings	6,328.24
Food	125.15
Lodging	893.95
Local transport	120.48
International transport	5,188.66
Regional Support Work	9,220.80
Stipends, committee	7,800.00
Prof. services, evaluation of personnel	500.00
Subscription CIFCA, Foro las Américas	250.00
Transport	670.80
Project Office	
Salaries and social security	61,351.14
Salaries	45,971.47
Social security	11,221.03
Employee taxes	2,271.60
Accounting	1,887.04
Office expenses	1,346.85
(Tel., consumables, mailings, materials)	
Telephone, fax, Internet	263.77
Post	538.20
Consumables, copies, office materials	338.25
Computer software	206.63
Miscellaneous expenditures	7,595.61

Transport, office personnel	352.04
Bank fees	843.58
Fees for bank transfers	3,637.08
Taxes on bank profits	145.79
Conversion variation, exchange rate loss	2,617.12
International support and general expenses	17,480.65
Contribution to PBI International Secretariat	15,603.48
Global PBI audit	1,877.17

Observation: The expenses have been classified according to the organization’s accounting nomenclature.

8.3 DIFFERENCE BETWEEN INCOME AND EXPENSES

As noted at the end of income statement (page 6) , there is an amount of –44,364.77 under the heading “Difference Between Income and Expenses.” At first glance, this would be considered a deficit for the accounting period. However, cash was carried forward from previous years to cover part of the expenses of 2009.

NOTE 9: INTERNAL CONTROL

9.1 INSIDE GUATEMALA

Internal controls are applied inside Guatemala. These controls can be summarized in the following way:

9.1.1 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, i.e. Quetzals, so that no exchange is necessary at the local level.

9.1.2 Account Holders and the Financial Sub-Committee: PBI Guatemala Project: A group of volunteers is appointed to control the administration of financial resources and is responsible for communicating with the accounting firm, which records transactions in Guatemala. The accounting firm is the Financial Sub-Committee.

The following “volunteers” were authorized to draw on the bank accounts in 2009:

AUTHORIZED	
Silvia Weber	Marina Comandulli
Caroline Tessier	Christopher Moye
Valerie Elsig	Juliane Walter
Jorge Cecil Palomeque	Samuel Jones

9.1.3 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 Subcommittee for the amount to be spent.

9.1.4 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. If the final recipient is not known, or the check is for miscellaneous expenses, it is issued in the name of the volunteer who pays the expense.

9.1.5 Cash payments: As indicated, 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.

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

9.1.7 Stipends for Volunteers: Volunteers receive a monthly stipend in quetzals at the current exchange rate. The payment is documented with an internal receipt.

9.1.8 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.

9.1.9 Control of expenses: Internally, the financial subcommittee controls expenses in accordance with the accounting nomenclature, grouping all payments chronologically. The invoices and receipts for expenses are glued to sheets of bond paper that are numbered consecutively and stamped in the upper right-hand corner with the date, total amount in Quetzals and expenditure initials.

9.1.10 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 and checks paid.

9.1.11 Accounting Records: As indicated in the previous paragraph, the accounting records are processed by Requena & Asociados, who use an accounting program for most of this process, as well as electronic worksheets to prepare specific reports.

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

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

9.2 OUTSIDE GUATEMALA:

Mayte Quesada, financial supervisor for the project outside of Guatemala, provided the following information in an e-mail:

9.2.1 Income: When income is recorded, the donor informs the financial supervisor, currently Mayte Quesada, who carries out the corresponding transaction, which may take place in either of the banks La Caixa or Caja Cantabria. Once or twice a year, small amounts are deposited directly in Banco Industrial de Guatemala.

9.2.2 Expenses: All expenses are paid by means of bank transfers. There are no advances. The person who pays the expense is reimbursed once the latter submits the invoice as evidence of the expense paid. Expenses for travel tickets, taxes and payroll are carried out in the same way. There is no cash box.

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. It should be emphasized that these requirements are those that are inherent to **PBI inside 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 value-added (VAT) and income taxes.

Comment: **PBI in Guatemala** was first granted this tax exemption by means of Resolution SAT-IRG-CRC-AOTG-UART R-2003-03-01-000407 of 14/11/03.

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, **PBI in Guatemalan territory** 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, the year it was established Guatemala. The 2009 declaration was filed with SAT Form No. 1192 0740963 on 26 March 2010

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 met this requirement in 2009.

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 2009.

10.9 Cash Flow Statement: At 31 December 2009, the office responsible for accounting prepared this financial statement, but only that which corresponds to Guatemalan territory.

Comment: In this respect, the provisions established by Guatemalan tax laws were fulfilled regarding the preparation and provision of cash flows for the part related to the country.

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.”