

TRUST FUND GUATEMALA TFCA
Financial statements at December 31, 2011
with the independent auditors' report

Report of the independent auditors

To the
Oversight Committee of the Tropical Forest Conservation Fund (FCA) and
the Board of Directors for the Conservation and Natural Resources and Environment of
Guatemala Foundation (FCG)

We have audited the accompanying financial statements of Trust fund Guatemala –TFCA- (the trust fund), which comprise the statement of financial position as of December 31, 2011, and the related statements of comprehensive activities, of changes in net assets in trust, and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

Management of the trustee is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and the internal control management determined as necessary to permit preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the trustee, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and adequate to provide a basis for our qualified audit opinion on the financial statements.

Opinion

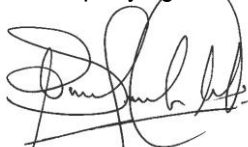
In our opinion, the above mentioned financial statements present fairly, in all material respects, the financial position of Trust fund Guatemala –TFCA- as of December 31, 2011, and the results of its comprehensive activities, and its cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS).

Paragraph of emphasis

We performed our audit for the purpose of forming an opinion on the overall basic financial statements.. The supplementary information on the translation of the financial statements for the year ended December 31, 2011 (see Annex I herewith), and on trust-funded projects as at December 31, 2011, pertaining to the second cycle of operations (Annex II), is presented for an additional analysis of the financial statements. This additional information was subjected to the same auditing procedures we applied to the overall financial statements and, in our opinion, this information is fairly presented, in all material respects aspects, in relation to the basic financial statements.

Other matters

The financial statements as at December 31, 2010 were audited by other auditors who expressed an unqualified opinion thereon in their report dated April 26, 2011. The relevant information is presented in the accompanying financial statements for comparability purposes.



Gilmar D. Barrera.
(Guatemalan) Certified Public Accountant
License No.6771

Guatemala, June 8, 2012

STATEMENTS OF FINANCIAL POSITION

Fideicomiso Guatemala TFCA

December 31,

(expressed in quetzales)

	2011		2010	
ASSETS				
Cash (note 4)	Q	188,876	Q	21,871,212
Receivable interest (note 5)		1,799,893		1,705,766
Investments (note 6)		66,177,881		35,658,827
TOTAL ASSETS	Q	68,166,650	Q	59,235,805
LIABILITIES				
Income taxes due (note 7)	Q	53,012	Q	153,037
Uncollected interest earned (note 5)		1,799,593		1,705,766
TOTAL LIABILITIES		1,852,605		1,858,803
TRUST FUND				
Permanently restricted trust fund		58,547,752		51,657,281
Temporarily restricted accumulated income		7,766,293		5,719,721
TOTAL TRUST FUND		66,314,045		57,377,002
LIABILITIES AND TRUST FUND	Q	68,166,650	Q	59,235,805

The accompanying notes are an integral part of the financial statements

STATEMENTS OF COMPREHENSIVE INCOME

Fideicomiso Guatemala TFCA

years ended December 31,
(expressed in Quetzales)

	2011			2010
	Temporarily restricted	Permanently restricted	Total	
INCOME				
Financial products (note 10)	Q 3,239,346	-	Q 3,239,346	Q 3,132,153
Contributed by the Ministry of Finance (note 8)	-	16,065,860	16,065,860	16,652,303
Other income (note 11)	188,808	-	188,808	169,948
	3,428,154	16,065,860	19,494,014	19,954,404
ADMINISTRATIVE EXPENSES				
Administrative expenses (note 12)	(3,732)	-	(3,732)	(974)
10% administrative expense transfers (note 9)	-	(1,606,586)	(1,606,586)	(1,665,231)
Grants to projects (note 9)	-	(7,568,803)	(7,568,803)	(10,205,463)
Income before income taxes	3,424,422	6,890,471	10,314,893	8,082,736
Income taxes (note 14)	(160,102)	-	(160,102)	(156,164)
Excess receipts over expenses	3,264,320	6,890,471	10,154,791	7,926,572
OTHER COMPREHENSIVE INCOME				
Foreign currency expenses (note 13)	(1,217,748)	-	(1,217,748)	(56,665)
Net changes in activities	2,046,572	6,890,471	8,937,043	7,869,907
Changes in activities - beginning of year	5,719,721	51,657,281	57,377,002	49,507,095
Net trust fund at end of year	Q 7,766,293	Q 58,547,752	Q 66,314,045	Q 57,377,002

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CHANGES IN TRUST FUND

Fideicomiso Guatemala TFCA

years ended December 31,
(expressed in quetzales)

	2011		2010
PERMANENTLY RESTRICTED TRUST FUND (note 8)			
CONTRIBUTIONS TO TRUST FUND			
Beginning balance	Q 71,793,791	Q	55,141,488
Contributions by the Ministry of Finance	16,065,860		16,652,303
Ending balance	87,859,651		71,793,791
DECREASES IN TRUST FUND (note 9)			
Beginning balance	(20,136,510)		(8,265,816)
10% administrative expenses transfers	(1,606,586)		(1,665,231)
Grants to projects	(7,568,803)		(10,205,463)
Ending balance	(29,311,899)		(20,136,510)
TOTAL PERMANENTLY RESTRICTED TRUST FUND	58,547,752		51,657,281
TEMPORARILY RESTRICTED ACCUMULATED INCOME			
Accumulated income from investments	5,719,721		2,631,423
Net income for the year	2,046,572		3,088,298
Ending balance	7,766,293		5,719,721
TOTAL TRUST FUND NET WORTH	Q 66,314,045	Q	57,377,002

The accompanying notes are an integral part of the financial statements

STATEMENTS OF CASH FLOWS

Fideicomiso Guatemala TFCA

years ended December 31,

(expressed in quetzales)

	2011		2010	
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:				
Net income for the year	Q	2,046,572	Q	3,088,298
Changes in assets and liabilities:				
Cash provided by contributions (note 8)		16,065,860		16,652,304
Grants to projects (note 9)		(7,568,803)		(10,205,463)
Administrative expense outlays (note 9)		(1,606,586)		(1,665,231)
(Increase) decrease in investments		(30,519,054)		11,239,624
Other		(300)		-
Provision for income taxes		(100,025)		17,613
Net cash (used in) operating activities		(21,682,336)		19,127,145
Net change in cash		(21,682,336)		19,127,145
Cash at beginning of year		21,871,212		2,744,067
Cash at end of year	Q	188,876	Q	21,871,212

The accompanying notes are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

(1) Trust fund operations

Trust fund Guatemala TFCA (the "Trust fund") was organized for an indefinite time on September 30, 2008 under public deed No. 151 notarized by the attorney Karla Guerra de Balsells. Trust fund's offices are located in Guatemala City and its accounting period ends on December 31 of each year.

The trust fund has no headcount (payroll employees) of its own as it is managed by Banco G&T Continental as a trustee.

Trustor: the trustor is Fundación para la Conservación de los Recursos Naturales y Ambiente en Guatemala – FCG (as Forest Conservation Fund administrator). Under trust fund creation provisions, 10% of patrimony disbursements are slated to cover administrative expenses.

FCG was created on March 27, 2000 as a private non-Government, not-for-profit, and non-political organization, for conservation, ecology, scientific, technological and cultural purposes, with its own legal status and capacity to acquire rights, enter into commitments, and undertake any activities considered necessary for it to achieve its goals.

FCG's general objective is to promote the conservation of biodiversity and the sustainable use of natural resources, environmental management, and sustainable development by a stable generation and disbursement of funds, services and projects management, provide specialized services in the environment area, projects funding, and management of the relevant environment projects.

FCG's mission is to obtain and provide financial resources for the conservation and sustainable management of Guatemala's natural and cultural patrimony, as a driver of the country's sustainable economic development, by way of either grants and providing services.

Trustees: trustees are those legal entities specified by the Trust fund as grant recipients and trustees up to grant sums and only for the time they maintain the status of grant recipients, together with one or more individuals designed as such by the Oversight Committee.

Trustee: Banco G&T Continental, S.A.

Patrimony in trust:

The patrimony in trust does embody: a) any sums the Government of Guatemala (GOG)

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

may deposit to the debt service account as provided by FCA as summarized in Annex 1 (during the years 2011 and 2010, GOG deposited some Q16,065,860 and Q16,652,303, respectively); b) any appreciation in value, interest income, and investments made from time to time on the basis of those funds; c) any additional deposits made by third-parties as approved by the Oversight Committee and reported by the trustee through the trustor.

Trust fund purposes: trust fund purposes include compliance with the objectives of the Tropical Forest Conservation Fund based on the selection grant recipients made by the Oversight Committee as provided by FCA's procedures and cover trust operating costs as approved by the Oversight Committee under those procedures, coupled to organize the Patrimony Fund in accordance with agreement terms.

FCA's Oversight Committee is organized as follows:

Permanent members: a) U. S. Government (USAID)
 b) Government of Guatemala (CONAP)
 c) The Nature Conservancy (TNC)
 d) Conservation International (CI)

Fixed-term member: e) Civil Society Organization

Tropical Forest Conservation Fund: Funded by resources or funds of debt-for-nature swap agreement between the Guatemala and U.S. governments. Fund-supported regions (listed below) were selected for their regional and national ecological significance, as they are considered to be critical areas covering Government of Guatemala national and institutional policies and strategies as part of SIGAP (Guatemalan Protected Areas System), and their social and economic importance to Guatemala and Mesoamerica).

1. Mayan Biosphere reserve
2. West-highland volcanic range
3. Motagua-Polochic basin and Caribbean coast
4. Cuchumatanes area.

The program is implemented by community, regional or national NGOs with funds supplied by the U.S. Government (US\$22 million) and by two private NGO – The Nature Conservancy (TNC) and Conservation International (CI) (US\$2 million), for an overall US\$24 million which are to be contributed during 15 years, beginning on the program's inception.

Project activities are programmed by bi-annual cycles, the first of which covers 2008 and

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

2010, the second cycle covers 2010 and 2012 (see Annex II for this cycle's projects), and so on.

(2) Summary of significant accounting policies

The financial statements were prepared, in all material respects aspects, in accordance with International Financial Reporting Standards (IFRS). The significant accounting policies adopted by the Trust fund for recording its operations and preparing financial information are summarized as follows:

a) Income

Interest income over bank accounts is recognized on a monthly basis when credited by the bank. This system agrees with the accrual method of accounting. Interest income over term-deposit certificates is recorded under control accounts ("Interest receivable" as an asset and "Uncollected interest earned" as a liability), and is credited to income of the year when collected. This treatment is at variance with IFRS, which require that income be recorded when accrued; however, the effect of this situation for 2011 was immaterial as this income was recorded in the following year.

b) Foreign currency transactions

Foreign currency transactions are recorded in domestic currency at the exchange rate prevailing on the date of the transaction. Balances of assets and liabilities in foreign currency are re-expressed in domestic currency at year-end at the exchange rate prevailing in the domestic banking system, and its effect, if any, is charged or credited to income at the end of period, as appropriate.

c) Permanently restricted trust fund

These are funds exclusively slated to address specific objectives and whose restriction is typified by both FCA agreement and the Trust fund, and embody US Government supplied sums under a debt swap between the Guatemala and U.S. governments and used as Trust fund's objectives based on the plans approved by the Oversight Committee of the FCA, mainly covering grants for projects and 10% of the payments received from the Government of Guatemala for administrative expenses.

d) Temporarily restricted accumulated sums

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

These are sums slated to cover Trust fund operating and management activities to support its objectives under approval of FCA's oversight Committee.

e) Presentation of basic financial statements

In view that IFRS do not specifically name not-for-profit basic financial statements FASB-117, issued by the Financial Accounting Standards Board (FASB), was adopted as provided by IAS 1 and IFRS 1.

f) Investments

Investments in deposit certificates are recorded at cost, and are made at current market return rates.

(3) Currency unit

The financial statements are expressed in Quetzales, currency of legal tender in Guatemala, denoted by the symbol Q. On March 16, 1994, the Monetary Board authorized that the value of quetzales vis-à-vis US dollars be set by foreign currency supply and demand in the domestic banking system. The domestic banking market average exchange rate at December 31, 2011 and 2010 was Q 7.81083 and Q 8.01358 to US\$1.00, respectively. By resolution JM-126-2006 dated October 2006, the use of an average weighted supply and demand exchange rate was authorized.

There are no exchange restrictions in Guatemala for the repatriation of capitals, payment of indebtedness, or for any other purpose.

(4) Cash balances

Cash balances at December 31 are summarized below:

		2011		2010
Banco G&T Continental (001-0036607-0)	Q	98,378	Q	222,789
Banco G&T Continental (01-5801697-5)		90,498		21,648,423
	Q	188,876	Q	21,871,212

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

(5) Accrued interest income and uncollected interest accrued sums

Interest income over fixed-term deposit certificates maintained with the domestic banking system as at December 31 accrued as follows:

	2011	2010
Investments in US\$		
Banco G&T Continental, S.A. Certificate No. 03-03-600000278-7 Q	1,198,302 Q	-
Banrural Certificate No. 42784	69,388	-
Banco G&T Continental, S.A. Certificate No. 03-03-3020000030-8	-	1,674,074
	1,267,690	1,674,074
Investments in quetzales		
Banco Industrial, S.A. No.33-006-110847	532,202	31,692
	Q 1,799,893 Q	1,705,766

Uncollected accrued interest as at December 31, 2011 amounted to Q1,799,593, a sum at variance by Q300.00 with interest receivable. This variance was adjusted in the financial statements for the year 2012.

(6) Investments

Investment balances as at December 31 are summarized as follows:

	2011	2010
Investments in quetzales		
Fixed-term deposit No. 03-01-3020000266-7, Q maintained with Banco G&T Continental, S.A. expiring on December 15, 2012, at 8% interest due on maturity.	13,139,835 Q	9,639,677
Fixed-term deposit No. 33-006-110847, maintained with Banco Industrial, S.A. expiring on May 2, 2012, at 7.5% interest due on maturity.	14,246,424	9,334,670
Carried forward	27,386,259	18,974,347

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

Brought forward	27,386,259	18,974,347
Investments in US\$		
Fixed-term deposit No. 03-03-600000278-7 for US\$4,606,797, maintained with Banco G&T Continental, S.A., expiring on February 29, 2012, at 4% interest due on maturity.	35,774,541	-
Fixed-term deposit No. 42784 for US\$392,722, maintained with en Banco de Desarrollo Rural, S.A., expiring on May 18, 2012, at 3.75% interest due on maturity.	3,017,081	3,057,265
Fixed-term deposit No. 03-03-30200000030-8 for US\$1,718,182, maintained with Banco G&T Continental, S. A., expiring on May 18, 2011, at 3.75% interest due on maturity.	-	13,627,215
	38,791,622	16,684,480
	Q 66,177,881	Q 35,658,827

(7) Income taxes due

Income taxes due as at December 31 are summarized below:

	2011		2010	
Income taxes due <u>a/</u>	Q	53,012	Q	153,037
	Q	53,012	Q	153,037

a/ This provision pertains to December 2011.

(8) Permanently restricted trust fund

The permanently restricted trust fund balance at December 31 was disaggregated as summarized below:

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

Description		
Balance December 31, 2010		Q 71,793,791
Contributions by the Ministry of Finance during 2011:		
	<u>Date</u>	<u>Amount</u>
	27/01/2011	898,887
	10/03/2011	1,844,689
	18/04/2011	2,410,517
	19/04/2011	1,296,403
	13/05/2011	1,475,110
	27/07/2011	882,074
	09/09/2011	1,884,605
	24/10/2011	2,481,454
	24/10/2011	1,334,023
	15/11/2011	1,558,099
Balance December 31, 2011		Q 87,859,651

(9) Reductions in the permanently restricted trust fund balance

Reductions in the permanently restricted trust fund balance as at December 31 are summarized as follows:

Description		
Balance December 31, 2010		Q 20,136,510
Grants provided to FCA projects		
	<u>Date</u>	<u>Amount</u>
	24/01/2011	198,728
	25/02/2011	340,000
	06/04/2011	148,445
Carried forward		687,173
		20,136,510

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

Brought forward	687,173	20,136,510
30/05/2011	533,513	
06/05/2011	124,908	
24/06/2011	181,505	
16/06/2011	634,236	
07/06/2011	479,464	
14/07/2011	309,988	
11/07/2011	163,000	
05/07/2011	605,408	
27/09/2011	569,431	
05/09/2011	559,544	
17/10/2011	341,913	
14/10/2011	275,806	
03/10/2011	252,190	
11/11/2011	273,300	
14/11/2011	163,000	
04/11/2011	775,734	
02/11/2011	638,689	7,568,803
10% administrative expense outlays		
	Date	Amount
	11/02/2011	89,889
	23/03/2011	184,469
	06/05/2001	129,640
	06/05/2011	241,052
	18/05/2011	147,511
	08/08/2011	88,207
	23/09/2011	188,461
	28/10/2011	381,548
	22/11/2011	155,810
		1,606,586
Balance December 31, 2011		Q 29,311,899

(10) Financial products

Financial products for the years ended December 31 are summarized as follows:

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

	2011		2010	
Interest income over investments	Q	3,194,336	Q	3,092,520
Bank interest		45,010		39,633
	Q	3,239,346	Q	3,132,153

(11) Other income

Other income earned during the years ended December 31 are summarized below:

	2011		2010	
Exchange rate fluctuation <u>a/</u>	Q	188,808	Q	169,076
Other products		-		872
	Q	188,808	Q	169,948

a/ Cover the re-expression of US\$-denominated balances at December 31, 2011.

(12) Administrative expenses

Administrative expenses disbursed during the years ended December 31 were the following:

	2011		2010	
Income taxes <u>a/</u>	Q	3,732	Q	974
	Q	3,732	Q	974

a/ This sum covers income taxes withheld by Banco G&T Continental, S.A. over interest earned on US dollar-account No. 01-5801697-5.

(13) Foreign-currency transaction expenses

Foreign-currency transaction expenses incurred during the years 2011 and 2010 are summarized below:

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

		2011		2010
Exchange rate fluctuation	Q	1,216,556	Q	6,712
Currency exchange losses		1,172		49,845
Handling-account charges		20		83
General charges		-		25
	Q	1,217,748	Q	56,665

a/ This sum accounts for the result of re-expressing foreign currency (US\$) balances at December 31, 2011 based on the average exchange rate made known by Banco de Guatemala on that date.

(14) Income taxes

The Trust fund is enrolled under the general income tax system, based on a tax authorities' opinion that trust funds are not subject to 10% financial product taxes but only to income taxes. Income taxes as at December 31, 2011 and 2010 were determined as follows based on the opinion in question:

		2011		2010
Interest over investments	Q	3,194,336	Q	3,092,520
Debt-service account capitalized interest		37,858		29,885
FCA trust fund account capitalized interest		7,153		9,748
		3,239,346		3,132,153
Exchange rate Fluctuations		188,807		169,076
Currency exchange gains		-		872
		188,807		169,948
Total income		3,428,153		3,302,101
Debt-service account capitalized interest		(37,316)		-
FCA trust fund fund capitalized interest		-		(9,748)
Currency exchange fluctuations		(188,807)		(169,076)
Tax-exempt income		(226,123)		(178,824)
Taxable income		3,202,031		3,123,277
5% income taxes	Q	160,102	Q	156,164

NOTES TO THE FINANCIAL STATEMENTS

Trust fund Guatemala TFCA

December 31, 2011

Pursuant to the Tax Code of Guatemala, the statute of limitations for the tax authorities to audit income tax returns elapses in four years beginning on the date when the returns were due for filing. The income tax returns filed for the tax periods 2010-2011 are still pending review by the tax authorities, and there is no knowledge of any tax review in process.

(15) Subsequent events

We are not aware of any subsequent events that might have occurred between the date of the financial statements and the date when the report of the independent auditors was issued that may require the amounts reported in the authorized financial statements to be modified.

STATEMENTS OF FINANCIAL POSITION

Fideicomiso Guatemala TFCA

December 31,

(Expressed in US\$)

	2011	2010
ASSETS		
Cash (note 1)	\$ 24,181	\$ 2,729,269
Receivable interest (note 2)	230,436	212,859
Investments (note 3)	8,505,710	4,449,800
TOTAL ASSETS	\$ 8,760,327	\$ 7,391,928
LIABILITIES		
Income taxes due (note 4)	\$ 6,787	\$ 19,097
Uncollected interest earned (note 2)	230,397	212,860
TOTAL LIABILITIES	237,184	231,957
TRUST FUND		
Permanently restricted trust fund	7,101,229	6,210,751
Temporarily restricted accumulated income	1,421,914	949,220
TOTAL TRUST FUND	8,523,143	7,159,971
LIABILITIES AND TRUST FUND	\$ 8,760,327	\$ 7,391,928

ANNEX I

Trust fund Guatemala TFCA

Translation of the financial statements
as at December 31, 2011

STATEMENTS OF COMPREHENSIVE INCOME

Fideicomiso Guatemala TFCA

years ended December 31, e

(Expressed in US\$)

	2011			2010
	Temporarily restricted	Permanently restricted	Total	
INCOME				
Financial products (note 7)	\$ 415,847	\$ -	\$ 415,847	\$ 388,617
Contributed by the Ministry of Finance (note 5)	-	2,069,016	2,069,016	2,074,835
Other income (note 8)	-	-	-	21,086
	415,847	2,069,016	2,484,863	2,484,538
ADMINISTRATIVE EXPENSES				
Administrative expenses (note 9)	(479)	-	(479)	(121)
10% administrative expense transfers (note 6)	-	(207,926)	(207,926)	(207,140)
Grants to projects (note 6)	-	(970,612)	(970,612)	(1,267,846)
Effect of transfer	77,879	-	77,879	251,067
Income before Income taxes	493,247	890,478	1,383,725	1,260,498
Income taxes (note 11)	(20,553)	-	(20,553)	(19,376)
Excess receipts over expenses	472,694	890,478	1,363,172	1,241,122
OTHER COMPREHENSIVE INCOME				
Foreign currency expenses (note 10)	-	-	-	(7,030)
Net changes in activities	472,694	890,478	1,363,172	1,234,092
Changes in activities - beginning of year	949,220	6,210,751	7,159,971	5,925,879
Net trust fund at end of year	\$ 1,421,914	\$ 7,101,229	\$ 8,523,143	\$ 7,159,971

STATEMENTS OF CHANGES IN TRUST FUND

Fideicomiso Guatemala TFCA

years ended December 31,

(Expressed in US\$)

	2011	2010
PERMANENTLY RESTRICTED TRUST FUND (note 5)		
CONTRIBUTIONS TO TRUST FUND		
Beginning balance	\$ 8,675,135	\$ 6,600,300
Contributions by the Ministry of Finance	2,069,016	2,074,835
Ending balance	10,744,151	8,675,135
DECREASES IN TRUST FUND (note 6)		
Beginning balance	(2,464,384)	(989,398)
10% administrative expense transfers	(207,926)	(207,140)
Grants to projects	(970,613)	(1,267,846)
Ending balance	(3,642,923)	(2,464,384)
TOTAL PERMANENTLY RESTRICTED TRUST FUND	7,101,228	6,210,751
TEMPORARILY RESTRICTED ACCUMULATED INCOME		
Accumulated income over investments	949,220	314,977
Net income for the year	472,695	634,243
Ending balance	1,421,915	949,220
TOTAL TRUST FUND	\$ 8,523,143	\$ 7,159,971

STATEMENTS OF CASH FLOWS

Fideicomiso Guatemala TFCA

years ended December 31,

(Expressed in US\$)

	2011	2010
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income for the year	\$ 472,694	\$ 634,244
Net changes in assets and liabilities:		
Cash provided by contributions	2,069,014	2,074,835
Grants to projects	(971,636)	(1,267,846)
10% administrative expense outlays	(206,902)	(207,140)
(Increase) provided by investments	(4,055,910)	1,163,831
Other	(38)	-
Provision for income taxes	(12,310)	2,887
Net cash (used in) operating activities	(2,705,088)	2,400,811
Net change in cash	(2,705,088)	2,400,811
Cash at beginning of year	2,729,269	328,458
Cash at end of year	\$ 24,181	\$ 2,729,269

(1) Cash balance on hand

Cash on hand balances as at December 31 are summarized below:

	2011	2010
Banco G&T Continental (001-0036607-0)	\$ 12,595	\$ 27,801
Banco G&T Continental (01-5801697-5)	11,586	2,701,468
	\$ 24,181	\$ 2,729,269

(2) Uncollected interest income earned

Interest income over fixed-term deposit certificates maintained with the domestic banking system as at December 31 accrued as follows:

	2011	2010
Investments in US\$		
Banco G&T Continental, S.A. Certificate No. 03-03-600000278-7	\$ 153,981	\$ -
Banrural Certificate No. 42784	9,078	-
Banco G&T Continental, S.A. Certificate No. 03-03-3020000030-8	-	208,904
	163,059	208,904
Investments in quetzales		
Banco Industrial, S.A. No.33-006-110847	67,377	3,955
	\$ 230,436	\$ 212,859

Uncollected accrued interest as at December 31, 2011 amounted to \$230,397, a sum at variance by Q300.00 with respect to interest receivable. This variance was adjusted in the financial statements for the year 2012.

(3) Investments

Investment balances as at December 31 are summarized in the following page:

	2011	2010
Investments in quetzales		
Fixed-term deposit No. 03-01-3020000266-7, \$ maintained with en Banco G&T Continental, S.A., maturing on December 15, 2012, at 8% interest due on maturity.	1,682,258 \$	1,202,918
Fixed-term deposit No. 33-006-110847, maintained with Banco Industrial, S.A., maturing on May 2, 2012, at 7.5% interest due on maturity.	1,823,933	1,164,856
Investments in US\$		
Fixed-term deposit No. 03-03-600000278-7 for US\$4,606,797, maintained with Banco G&T Continental, S.A., maturing on February 29, 2012, at 4% interest due on maturity.	4,606,797	-
Fixed-term deposit No. 42784 por US\$392,722, maintained with Banco de Desarrollo Rural, S. A., maturing on May 18, 2012, at 3.75% interest due on maturity.	392,722	381,511
Fixed-term deposit No. 03-03-30200000030-8 for US\$1,718,182, maintained with Banco G&T Continental, S. A., maturing May 18, 2011, at 3.75% interest due on maturity.	-	1,700,515
	4,999,519	2,082,026
	\$ 8,505,710	\$ 4,449,800

(4) Income taxes due

Income taxes due as at December 31 are summarized below:

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	2011	2010
Income taxes due <u>a/</u>	\$ 6,787	\$ 19,097
	\$ 6,787	\$ 19,097

a/ This provision pertains to 2011.

(5) Permanently restricted trust fund

The permanently restricted trust fund balance at December 31 was disaggregated as summarized below:

<u>Description</u>		
Balance December 31, 2010		\$ 8,675,135
Contributions by the Ministry of Finance during 2011		
<u>Date</u>	<u>Amount</u>	
27/01/2011	113,528	
10/03/2011	239,118	
18/04/2011	316,794	
19/04/2011	170,636	
13/05/2011	194,432	
27/07/2011	113,527	
09/09/2011	239,118	
24/10/2011	316,794	
24/10/2011	170,636	
15/11/2011	194,433	2,069,016
Balance December 31, 2011		\$ 10,744,151

(6) Reductions in the permanently restricted trust fund balance

Reductions in the permanently restricted trust fund balance as at December 31 are summarized as follows:

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Description		
Balance December 31, 2010		\$ 2,464,384
Grants provided to FCA projects		
	<u>Date</u>	<u>Amount</u>
	24/01/2011	25,511
	25/02/2011	43,647
	06/04/2011	19,056
	30/05/2011	68,489
	06/05/2011	16,035
	24/06/2011	23,300
	16/06/2011	81,419
	07/06/2011	61,551
	14/07/2011	39,794
	11/07/2011	20,925
	05/07/2011	77,719
	27/09/2011	73,100
	05/09/2011	71,831
	17/10/2011	43,893
	14/10/2011	35,406
	03/10/2011	32,375
	11/11/2011	35,085
	14/11/2011	20,925
	04/11/2011	99,584
	02/11/2011	81,991
		971,636
10% administrative expense outlays		
	<u>Date</u>	<u>Amount</u>
	27/01/2011	11,353
	10/03/2011	23,912
	18/04/2011	31,679
	19/04/2011	17,064
	13/05/2011	19,443
	27/07/2011	11,353
	09/09/2011	23,912
	24/10/2011	31,679
	24/10/2011	17,064
	15/11/2011	19,443
		206,902
Balance December 31, 2011		\$ 3,642,922

(7) Financial products

Financial products for the years ended December 31 are summarized as follows:

	2011	2010
Interest income over investments	\$ 410,069	\$ 383,700
Bank interest	5,778	4,917
	\$ 415,847	\$ 388,617

(8) Other income

Other income earned during the years ended December 31 are summarized below:

	2011	2010
Exchange rate fluctuation	\$ -	\$ 20,978
Other products	-	108
	\$ -	\$ 21,086

(9) Administrative expenses

Administrative expenses disbursed during the years ended December 31 are summarized as follows:

	2011	2010
Income taxes <u>a/</u>	\$ 479	\$ 121
	\$ 479	\$ 121

a/ This sum covers income taxes withheld by Banco G&T Continental, S.A. over interest earned on US dollar-account No. 01-5801697-5.

(10) Foreign-currency transaction expenses

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Foreign-currency transaction expenses incurred during the years 2011 and 2010 are summarized below:

	2011		2010
Exchange rate fluctuation	\$	-	\$ 833
Currency exchange losses		-	6,184
Handling-account charges		-	10
General charges		-	3
	\$	-	\$ 7,030

(11) Income taxes

The Trust fund is enrolled under the general income tax system, based on a tax authorities' opinion that trust funds are not subject to 10% financial product taxes but only to income taxes. Income taxes as at December 31, 2011 and 2010 were determined based on the opinion in question:

	2011		2010
Interest over investments	\$	410,069	\$ 383,700
Debt-service account capitalized interest		4,860	3,708
FCA trust fund account capitalized interest		918	1,209
		415,847	388,617
Exchange rate Fluctuations		24,238	20,978
Currency exchange gains		-	108
		24,238	21,086
Total income		440,085	409,703
Debt-service account capitalized interest		(4,790)	(1,209)
Exchange rate fluctuations		(24,238)	(20,978)
Tax-exempt income		(29,028)	(22,187)
Taxable income		411,057	387,516
5% income taxes	\$	20,553	\$ 19,376

ANNEX I

Trust fund Guatemala TFCA Translation of the financial statements as at December 31, 2011

Pursuant to the Tax Code of Guatemala, the statute of limitations for the tax authorities to audit income tax returns elapses in four years beginning on the date when the returns were due for filing. The income tax returns filed for the tax periods 2010-2011 are still pending review by the tax authorities, and there is no knowledge of any tax review in process.

ANNEX II
Current projects funded by
Trust fund Guatemala TFCA

Agreement	Implementing unit	Project	Geography region	Disbursed 2011	Total project	% contributed in 2011
FCA 001-2010	Helvetas / Asociación Suiza para la Cooperación Internacional	Municipal and community integral handling of hydric recharge zones in strategic conservation areas in Santa Rita sierra in Quetzaltenango	Volcans Range	302,456	1,592,970	19%
FCA 002-2010	Helvetas / Asociación Suiza para la Cooperación Internacional	Strengthen and consolidation of the decentralized handling of regional municipal parks, community forests, and private natural reserves in connectivity priority zones in the Saquibutz-Tewancamero volcanic chain	Volcans Range	464,860	1,590,620	29%
FCA 003-2010	CATIE / Centro Agronómico Tropical de Investigación y Enseñanza	Strengthen the co-management of the conservation and restoration of the Astillero de Tecpan Guatemala municipal regional park (hydric recharge zone of the Madre Vieja, Motagua, and Coyolate rivers basin) Phase 1	Volcans Range	730,102	1,593,218	46%

ANNEX II
Current projects funded by
Trust fund Guatemala TFCA

Agreement	Implementing unit	Project	Geography region	Disbursed 2011	Total project	% contributed in 2011
FCA 004-2010	Fundación Defensores de la Naturaleza	Mitigate challenges to conservation elements of the Nuboso-Sierra de las Minas forests corridor by strengthening conservation and fire control schemes and developing economic alternatives	Motagua-Polochic and Caribbean coastline	569,431	1,592,972	36%
FCA 005-2010	Fundación Defensores de la Naturaleza	Strengthen PNSL governance by ensuring that actions against challenges and conflicts management are taken, along with the implementation of cooperative agreements	Mayan Biosphere Reserve	341,913	1,586,079	22%
FCA 006-2010	Asociación Sotz'il / Sotzil-bosques comunales	Strengthen Maya collective actions aimed at the conservation and sustainable management of community forests at western and Cuchumatanes volcan range	Cuchumatanes	560,731	1,598,992	35%
FCA 007-2010	Asociación Vivamos Mejor	Integral management of the river Quscab sub-basin and strengthen the biology corridor of lake Atitlan basin multiple uses reservation	Volcans Range	605,408	1,599,842	38%
FCA 008-2010	Care Guatemala	Implement a planning and participative management model over micro-basins for adapting to weather changes in five highland San Marcos community towns	Volcans Range	241,740	1,598,666	15%

ANNEX II
Current projects funded by
Trust fund Guatemala TFCA

Agreement	Implementing unit	Project	Geography region	Disbursed 2011	Total project	% contributed in 2011
FCA 009-2010	Fundaeco / Fundación para el ecodesarrollo y la conservación	Support for the establishment and consolidation of a community, municipal, and private protected areas network and the handling of bio-cultural views in the Huehuetenango border region	Cuchumatanes	585,794	1,467,155	40%
FCA 010-2010	Asocuch / Asociación de Organizaciones de los Cuchumatanes	Strengthen local management and implementation of strategies aimed at diminishing threats in three significant areas for biodiversity conservation in the Cuchumatanes sierra in Huehuetenango	Cuchumatanes	598,995	1,591,606	38%
FCA 011-2010	Fundaeco / Fundación para el ecodesarrollo y la conservación	Strengthen the management of San Gil, Sarstun river. And Punta de Manabique areas. Community participation, financial sustainability, and consolidation of core zones at critical pressure and re-forestry sites	Motagua-Polochic and Caribbean coastline	559,544	1,600,000	35%
FCA 012-2010	Asociación Balam-Laguna del Tigre	Consolidating the protection of the East Zone of the Laguna del Tigre and its biological corridor through a special protection system based on strategic alliances among government institutions, community groups and civil society organizations.	Mayan Biosphere Reserve	666,000	1,429,000	47%

ANNEX II
 Current projects funded by
Trust fund Guatemala TFCA

Agreement	Implementing unit	Project	Geography region	Disbursed 2011	Total project	% contributed in 2011
FCA 013-2010	Wildlife Conservation Society	Strengthen governance of the Maya biosphere reserve in Guatemala, Peten multiple uses zone.	Mayan Biosphere Reserve	671,747	1,590,440	42%



**REPORT OF THE INDEPENDENT AUDITORS ON
COMPLIANCE WITH AGREEMENT TERMS**

To the
Oversight Committee of the Tropical Forest Conservation Fund (FCA) and
the Board of Directors of the Conservation and Natural Resources and Environment of
Guatemala Foundation (FCG)

We have audited compliance with accounting and financial matters provided by the agreement signed among the Government of the Republic of Guatemala, The Nature Conservancy and Conservation International Foundation, called Forest Conservation Agreement; during the year ended December 31, 2011, and also the financial statements of Trust fund Guatemala –TFCA, regarding which we have issued our report dated June 8, 2012 and expressed an unqualified opinion thereon.

We conducted our audit in accordance with International Standards on Auditing applicable to reviews of compliance with contractual clauses. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether both Tropical Forest Conservation Fund (FCA) and the Conservation and Natural Resources and Environment of Guatemala Foundation (FCG) complied with agreement relevant provisions.

An Audit involves examining appropriate evidence on a selective test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, both Tropical Forest Conservation Fund (FCA) and Conservation and Natural Resources and Environment of Guatemala Foundation (FCG) complied in all material respects with accounting and financial matters provided by the agreement (referred to in the preceding paragraphs) during the year ended December 31, 2011.

This report is intended for the sole information of the Oversight Committee of the Tropical Forest Conservation Fund (FCA) and the Board of Directors of the Conservation and Natural Resources and Environment of Guatemala Foundation (FCG). However, upon release, this report is a matter of public record and its distribution is no longer restricted.

Gilmar D. Barrera
(Guatemalan) Certified Public Accountant
License No. 6771

Guatemala, June 8, 2012



**REPORT OF THE INDEPENDENT AUDITORS ON
COMPLIANCE WITH AGREEMENT TERMS CONCERNING
GRANTS AND PROJECTS MANAGEMENT BY GRANT RECIPIENTS**

To the
Oversight Committee of the Tropical Forest Conservation Fund (FCA) and
the Board of Directors of the Conservation and Natural Resources and Environment of
Guatemala Foundation (FCG)

We have audited compliance with matters provided by the Fund for Tropical Forest Conservation Fund (FCA) related to the debt for nature (swap), managed by The Conservation and Natural Resources and Environment of Guatemala Foundation (FCA), and clause 5 of the Tropical Forests Conservation agreement, concerning grants, projects management and follow-up (clause 5.2.6 – Use of Grants), coupled to compliance with disbursing grant terms by grant recipients.

We conducted our audit in accordance with International Standards on Auditing applicable to reviews of compliance with contractual clauses. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether funds authorized to grant recipients were disbursed for authorized purposes, and whether Natural Resources and Environment of Guatemala Foundation (FCG), as program administrator, complied with agreement terms, and also whether grant recipients implemented the project in accordance with grant agreement terms. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Tropical Forest Conservation Fund (FCA) managed by Conservation and Natural Resources and Environment of Guatemala Foundation (FCG) complied in all material respects with the matters provided by the agreement (referred to in the preceding paragraphs) during the year ended December 31, 2011.

This report is intended for the sole information of the Oversight Committee of the Tropical Forest Conservation Fund (FCA) and the Board of Directors of the Conservation and Natural Resources and Environment of Guatemala Foundation (FCG). However, upon release, this report is a matter of public record and its distribution is no longer restricted.

Gilmar D. Barrera
(Guatemalan) Certified Public Accountant
License No. 6771

Guatemala, June 8, 2012

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ACCOUNTING CERTIFICATE

To the
Oversight Committee of the Tropical Forest Conservation Fund (FCA) and
the Board of Directors of the Conservation and Natural Resources and Environment of
Guatemala Foundation (FCG)

I do hereby do issue this certificate in my capacity of a (Guatemalan) Certified Public Accountant, and its contents deal with the management of funds and the recording and budget of **TFCA Administrative Expenses** bank account No. 66-0009301-3, and of **TFCA Grants** bank account No. 66-0009302-1, both maintained to Banco G&T Continental, S. A. as at and for the year ended December 31, 2012.

This certificate is intended for the sole information of the Oversight Committee of the Tropical Forest Conservation Fund (FCA) and the Board of Directors of the Conservation and Natural Resources and Environment of Guatemala Foundation (FCG). However, upon release, this certificate is a matter of public record and its distribution is no longer restricted.

Gilmar D. Barrera
(Guatemalan) Certified Public Accountant
License No. 6771

Guatemala, June 8, 2012

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CONTADORES PUBLICOS Y AUDITORES



**REPORT OF THE INDEPENDENT AUDITORS ON
INTERNAL CONTROL AND THE ACCOUNTING SYSTEM**

To the
Oversight Committee of the Tropical Forest Conservation Fund (FCA) and
the Board of Directors of the Conservation and Natural Resources and Environment of
Guatemala Foundation (FCG)

We have audited the financial statements of the fund accountability statements of Trust fund Guatemala TFCA the year ended December 31, 2011, and have issued our unqualified report thereon dated June 8, 2012.

We conducted our audit in accordance with International Auditing Standards. Those Standards require that we plan and perform our audit for the purpose of obtaining reasonable assurance that financial statements are free from material misstatement.

Both Banco G&T Continental as trustee and the Foundation in its capacity of administrator of the Tropical Forest Conservation Fund, are responsible for establishing and maintaining internal control. In fulfilling this responsibility, management judgments and estimates are required to assess expected benefits and costs related to internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute assurance that transactions are performed according to management authorization and agreement terms, and adequately recorded to permit preparation of financial statements in conformity with the basis of accounting described in Note 4 to the statements. Because of limitations inherent to internal control, however, errors or fraud may occur and not detected. Also, projection of any assessments of internal control to future periods is subject to the risk that procedures might become inadequate due to changes in conditions or that the effectiveness in the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements for the year ended December 31, 2011, we obtained an understanding of internal control and of the design of relevant policies and procedures and whether they had been placed in operation; we also assessed internal control risk for determining our audit procedures for the purpose of expressing an opinion on the statement of financial position and not provide an opinion on internal control. Accordingly, we do not express such and opinion.

Internal control findings which came to our attention and which we do not consider to be material deficiencies are discussed in annex I to this report.

Our consideration of internal control would not necessarily reveal all internal control matters that might be considered material deficiencies. A material deficiency is a reportable condition in which the design or

operation of one or more internal control specific elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements might occur and not be opportunely detected by employees in the normal discharge of their functions.

This report is intended for the sole information of the Oversight Committee of the Tropical Forest Conservation Fund (FCA) and the Conservation and Natural Resources and Environment of Guatemala Foundation (FCG). However, upon release, this report is a matter of public record and its distribution is no longer restricted.

A handwritten signature in black ink, appearing to read 'Gilmar D. Barrera', with a large, stylized flourish at the end.

Gilmar D. Barrera
(Guatemalan) Certified Public Accountant
License No. 6771

Guatemala, June 8, 2012

TRUST FUND GUATEMALA - TFCA

RECOMMENDATIONS TO IMPROVE INTERNAL CONTROL OVER ACCOUNTING PROCESSES.

1. Uncollected interest earned

During our audit we noted the following matters concerning the recording of interest earned:

- a) Fixed-term deposit certificate
Currency: Quetzales
Number: 33-006-110847
Banco Industrial, S.A.

Finding: it appears that interest income for December 2011 was incorrectly recorded as in the Excel spreadsheet, not validated by the accounting department, Q82,427 rather than Q90,748 were placed for an unrecorded difference of Q8,321 (adjusted at May 2012, during our review).

- b) Fixed-term deposit certificate
Currency: US\$
Number: 42784
Banco de Desarrollo Rural, S.A.

Finding: the computation dates used by the accounting department and the bank were not verified with a resulting difference of Q1,614 in unrecorded interest income. This situation was still in process of review when we completed our work.

Risk: interest income sums pending collection might not be adequately recorded at the end of period and lead to a wrong decision-taking process.

Recommendation: *Trustee should ensure that data on unsacred interest income is obtained from banks where investments are held in order to a) minimize any imbalances as to dates and interest income sums which might have been incorrectly recorded and b) have on hand a benchmark when making the related computations and preparing the relevant accounting entries.*

Trustee comments: further to the auditors' recommendation we will ensure that both the accounting department and Trust fund TFCA management do coordinate their efforts to obtain the mentioned banks data for monthly comparison purposes.

2. US dollar-investment amounts were not re-expressed at year-end

US dollar investment amounts were not re-expressed at the closing exchange rate of Q7.81083 to US\$1.00, and a variation in exchange differences was given rise as summarized below:

Certificade	Bank	Invested amount	Reexpressed in quetzales	Accounting balances	Variation	ER per the accounting
03-03-600000287-7	G&T Continental, S.A.	\$ 4,606,797	Q 35,982,907	Q 35,774,541	Q 208,366	7.76560
42784	Banrural	392,722	3,067,482	3,017,080	50,402	7.68249
		\$ 4,999,519	Q 39,050,389	Q 38,791,621	Q 258,768	

Risk: foreign-currency balances might not be presented as required by IFRS, i. e., re-express year-end foreign-exchange cash and other balances at the closing exchange rate.

Technical grounds: IFRS 7

Recommendation: *foreign exchange balances should be re-expressed on a monthly basis for the purpose of having these balances recorded at year-end as required by IFRS with no material effect on the results of period.*

Trustee comments: *in view of the possibility that IFRS might not apply to Trust funds, which are based on mercantile contracts without having us a legal status, we use the historical cost convention, based on the fact it is not the purpose of our financial statements to present actual assets value nor their realizable amounts. However, in my capacity of Trust fund TFCA's accountant I am willing to re-express TC's foreign-currency investment balances every month, as suggested, if approved in writing by both the trustee and the external auditors so that the latter's recommendation is implemented "with no material effect on the results of period."*

3. The disaggregation of balances by components was not reviewed

The disaggregation of balances by components at December 31, 2011 had not been reviewed by the fiduciary entity at the date of our audit. The disaggregation of the Quetzales "interest income" balance, for example, reflected an adjustment for Q542.00) which might be an indication of exchange differences with respect to the US\$ balance, although the bank claimed that that was not the case, but did not provide further details on the balance.

Risks:

- No reliable or opportune data might be on hand for decision-taking purposes.
- Real balances might not be reflected in the financial statements for lack of control.

- If this situation does in fact reflect an adjustment to US\$ accounts (income or expense) it might affect the computations in the income tax return already filed.

Recommendation: *accounting balances should be disaggregated by components monthly as financial information is required to be complete and reliable at all times and not only at a given date, thus implying that there should be assurance that this information is true and was duly documented*

Trustee comments: *the auditors are right as, by requirement of the fiduciary entities, Trust fund accounts are closed on the first working day of January thus preventing that changes in the ending trial balance be reviewed, thus leading us to journal entry No. 6, dated 12/31/2011, subsequently recorder, to account for interest income of Q543.75, over bank deposit balances rather than adjusting the interest income over investments account. This situation was not reflected neither in the statement of income nor in the computation of income taxes in the pertinent tax returns. According to the Accounting Instructions Manual issued by the Superintendence of Banks no income nor expense line items are recorded in foreign currency: also, the accounting department registered this sum under the mentioned line item, and did not reclassify it based on the fact that because this line item is reflected in the end-of period it is assumed that income statement balances are closed out at the beginning of the new accounting period.*

4. Wrong recording of interest collected

- a) Fixed-term deposit certificate
Currency: Quetzales
Number: 03-01-30200000266-7
G&T Continental, S.A.

Finding: interest income over investments was over recorded during the period June to December 2011 for Q20.00 thus giving rise to an excess interest for Q300. The accounting department detected this variance when the capitalization of interest in December 2011 was traced (adjusted during the first quarter of 2012).

- b) Fixed-term deposit certificate
Currency: US\$
Number: 42784
Banco de Desarrollo Rural, S.A.

Finding: for the audit report some interest income for US\$3,955 was pending to be collected over this certificate as at December 31, 2010, at variance with the accounting department's assertion that the sum in question amounted to US\$1,703.

The last sum was not provisioned at that time, while the balance of US\$3,955 pertained to interest pending capitalization over Banco G&T Continental certificate 03-01-302000000266-7.

Risks:

- No reliable or opportune data might be on hand for decision-taking purposes.
- Real balances might not be reflected in the financial statements for lack of control.

Recommendation: *income earned and collected balances should be disaggregated by components and traced to the related records prior to closing the accounting period out, in order to verify and confirm that the recording of these balances is right.*

Trustee comments: *the excess Q300.00 were due to an error when the computation of interest income formulae was applied to the Banco G&T Continental certificate. Beginning June 2011 the relevant provision was increased monthly through December 2011, and the excess was adjusted when interest collected was recorded.*

As to the matter concerning the overlapping of bank certificates, the related interest income was computed by the other auditors firm who audited the year 2010. This situation led to some confusion when interest income was recorded as it was assumed that interest income for US\$1,703.00 had not been recorded, a sum that did not correspond to an investment held with Banco G&T Continental rather than with BANRURAL.

5. Income from foreign exchange fluctuations reported as non-taxable for income tax purposes

The income tax return for the year ended December 31, 2011 reflected some income for Q188,807 from foreign exchange fluctuations and was reported as not-taxable income as presumably provided by the income tax law.

Risk: In the event of a tax audit, SAT (the Government's tax office) might assess additional income taxes over the above sum, plus interest, delay, and fine charges, by claiming that the corresponding income taxes were not remitted to the Government in due course.

Recommendation: *the trustee should consider amending the income tax return in question and remit the presumably correct income tax sum of Q9,440 under the system the entity is enrolled in, i. e., 5% income taxes over gross income, including the presumed unreported income.*

Trustee comments: *income from exchange rate fluctuations was reported as non-taxable income based on SAT's own criteria as the income tax law does not contain any provisions over the treatment of this type of income, which arises from pure adjustments with no cash flows involved.*

SAT's criteria refer to not-tax deductible expenses arising from exchange rate fluctuations and not to the purchase-sale of foreign currency in the domestic banking market. It should be noted that the re-expression of asset balances entails financial and not tax implications, hence if an income tax return should be amended with respect to non-deductible items because foreign currency exchange losses do not arise from foreign currency purchases, the taxpayer should also be able to amend its income tax return with respect to income reported as OTHER INCOME, because gains over foreign currency differences do not arise from actual foreign currency sales.