



Audidores, Consultores Empresariales,  
Consultores en Impuestos y Defensa Tributaria

**TROPICAL FORESTS CONSERVATION FUND  
FCA PROGRAM**

Debt for Nature Swap, Product of the Subscribed Agreement Between the Government of  
Guatemala and the Government of the United States of America

Framework of the Forest Conservation Agreement Subscribed Between the Government of the  
Republic of Guatemala, The Nature Conservancy and Conservation International

Managed by the Foundation for the Conservation of Natural Resources  
Guatemala, FCG

January 1 to December 31, 2008

**TROPICAL FOREST CONSERVATION FUND  
FCA-PROGRAM**

Independent Auditors' Report

Ended Period

To December 31, 2008

MIEMBRO DE:



GENEVA GROUP INTERNATIONAL



Guatemala City, April 24, 2009

Oversight Committee  
Tropical Forests Conservation Fund - FCG  
& Board of Directors  
Foundation for the Conservation of Natural Resources  
and the Environment in Guatemala, FCG

Sirs,

This report presents the results of our financial audit of resources product of the Debt Swap for Nature subscribed between the Government of Guatemala and the Government of the United States of America, managed by the Tropical Forests Conservation Fund - FCG, for the period from January 1st to December 31st, 2008.

## **TROPICAL FORESTS CONSERVATION FUND FCA PROGRAM**

Debt for Nature Swap, Product of the Subscribed Agreement Between the Government of Guatemala and the Government of the United States of America

Framework of the Forest Conservation Agreement Subscribed Between the Government of the Republic of Guatemala, The Nature Conservancy and Conservation International Foundation

Managed by the Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG

January 1 to December 31, 2008

To execute the program, the Forest Conservation Agreement was subscribed between the Government of the Republic of Guatemala, The Nature Conservancy and Conservation International Foundation, to be administered by the Foundation for the Conservation of Natural Resources and Environment in Guatemala - FCG - for its implementation from September 8, 2006 and until January 20, 2010.

Program Objective:

The Agreement's objectives, which are identical:

MIEMBRO DE:

  
GENEVA GROUP INTERNATIONAL



Guatemala City, April 3<sup>rd</sup>, 2009

Oversight Committee  
Tropical Forests Conservation Fund – FCA  
& Board of Directors  
Foundation for the Conservation of Natural Resources  
and the Environment in Guatemala, FCG

Sirs,

This report presents the results of our financial audit of resources product of the Debt Swap for Nature subscribed between the Government of Guatemala and the Government of the United States of America, managed by the Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG, for the period of January 1st to December 31st, 2008.

## **I. BACKGROUND**

Looking to facilitate conservation, protection, restoring, sustainable use and management of tropical forests in Guatemala, the Government of the United States of America and the Government of the Republic of Guatemala, observing that the fast rates of deforestation and forest degradation continue to be a serious problem in many regions of the world; recognizing that the easing of the external debt, in the context of wide economic reforms, can result in an increase in the protection of tropical forests; also recognizing the role played by “Conservation International Foundation” and “The Nature Conservancy” in the protection of tropical forests in Guatemala, and the success of Non-government organizations in Guatemala in the conservation and management of tropical forest lands in Guatemala, and promoting the goals of the laws of the United States of America, dated September 8, 2006 signed the agreement related to Debt for Nature Swap to pre-pay and cancel certain debt owed by the Government of the Republic of Guatemala to the Government of the United States of America, for the execution of the “Tropical Forests Conservation Fund” Program..

To execute the program, the Forest Conservation Agreement was subscribed between the Government of the Republic of Guatemala, The Nature Conservancy and Conservation International Foundation, to be administered by the Foundation for the Conservation of Natural Resources and Environment in Guatemala – FCG –, for an implementation period of 15 years which began September 8, 2006 and ends January 28, 2021.

### **Program Objectives**

The Agreement’s funds are assigned to conserve, maintain and restore tropical forests in Guatemala, which are identified as Forest Lands.



FCA's mission is to be an innovative financial tool that, in partnership with donors, entities and communities, reinforces conservation and sustainable development agendas through high impact programs.

The vision and goal is to achieve long-lasting conservation of natural resources in priority regions of Guatemala, to improve the community's well-being.

**Brief history of the Program Administrator (Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG)**

The Trust for Conservation in Guatemala began operations in 1991, established with the purpose to support bio-diversity conservation processes and the sustainable use of natural resources.

The Foundation for the Conservation of Natural Resources and the Environment in Guatemala was legally registered on March 24, 2003, in the Civil Registry of the Capital City, with the purpose of making the processes and services the Trust provides more agile and efficient, and with the idea of expanding its activities.

The FCG does not substitute the Guatemala Trust; both institutions act jointly to provide better and more efficient service to partners and contributors. Since its creation, the Foundation is in charge of most of the operations of the environmental fund, and leaves the process of credits for productive and environmental projects to the Trust.

The general objective of the Foundation is to promote conservation of bio-diversity and sustainable use of natural resources, environmental management and sustainable development, through implementation and stable generation of funds, management of services and projects, offer and implementation of specialized services in the environment field, funding for projects and management of environmental projects.

The mission of FCG is to negotiate and facilitate financial resources for the conservation and sustainable management of the natural patrimony in Guatemala. This is done through three program lines: 1) grants; 2) sub-accounts and services, and 3) credits managed through the Trust.

The first program line developed was the grants' line, by which FCG has provided support to projects in almost all of the country under the following lines of action: protected areas, sustainable management of natural resources, environmental training and education, research, environmental policy and legislation, and institutional strengthening. The beneficiaries of these funds (those who implement the projects) include, among others, NGO'S, independent researchers and Government entities.



When the Forests Conservation Agreement was signed in September 2006, the Foundation for the Conservation of Natural Resources and Environment in Guatemala (FCG) was named Fund administrator, and in 2009, when the Trust was established, the FCG became the Trustor.

## **II. AUDIT OBJECTIVES**

The general objective is to develop the audit of the resources of the Fund for Tropical Forest Conservation, managed by the Oversight Committee of the Fund through the Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG.

The specific objectives of our audit were the following:

- a) Provide an opinion about the financial statements of the Fund for Tropical Forest Conservation, FCA, corresponding to the debt for nature swap.
- b) Determine if the internal control structure of the Tropical Forests Conservation Fund, FCA, is adequate, and identify reportable conditions, including important internal control deficiencies.
- c) Evaluate if the Tropical Forests Conservation Fund, FCA, complied with the terms of the FCA Agreement for the Conservation of Forests, implementing projects, and according to applicable laws and regulations.
- d) Determine if the foundation has implemented adequate corrective actions according to recommendations of audit reports of the previous year.

## **III. AUDIT SCOPE**

The scope of our work included the following:

### **I. Become familiar with the program, by reviewing the following documents:**

- Debt for Nature Swap Agreement
- Co-financing Swap Agreement
- FCA Agreement for Forest Conservation
- Public deed of incorporation of the FCG and registries in the corresponding institutions
- Public deed of incorporation of the Guatemala Trust, TFCA
- Financial statements audit report to December 31, 2007
- Follow-up to administration actions about recommendations of the previous year's audit reports
- Budget of administration expenses approved for the year 2008
- Agreements subscribed with grant receivers

## II. Internal control

We achieved an understanding about the internal control policies and procedures of FCG related to the Program, and we evaluated control risk to determine our audit tests (not with the purpose of expressing an opinion about internal control) covering procedures about cash incomes and disbursements, accounting registries, financial information system and budget control.

## III. Compliance with the Agreement's terms, applicable laws and regulations

We verified compliance of FCG with the terms of the Agreement for Tropical Forests Conservation in all important aspects, laws and applicable regulations, in accordance to the International Auditing Rules stated by the IFAC. The purpose of our evaluation was to obtain reasonable certainty that the Financial Statement is free of material distortions, and not to express an opinion about compliance with such terms.

## IV. AUDIT PROCEDURES

a) We obtained and reviewed the following legal documents:

- Public deed of incorporation of the FCG Foundation and its respective registries in the corresponding Government agencies;
- Agreements signed with different local and international institutions, and
- Public Deed of Incorporation of the TFCA Guatemala Trust.

b) Specific auditing procedures:

We examined the support documentation and information related to the Programs accounting registries, as follows:

- Review of the journal, general ledger and balance book of the Program, to verify the adequate registry of operations and expenditures incurred.
- Review procedures used by the Program to control funds.
- Review of bank accounts and controls over those accounts, as well as remittance of confirmations to banks.
- Review of financial and advance reports, information back-up by accounting books and registrars.
- Review of budget and its execution.



- c) We executed tests to determine the expenses of the Program, including administration expenses of FCG as well, to verify that those expenses do not exceed the global budget approved by the Oversight Committee for the year 2008.
- d) We examined support documentation of establishment, opening and operation of the TFCA Guatemala Trust, to December 31, 2008 constituted in accordance to what is established in the Forest Conservation Agreement.

## **V. AUDIT RESULT**

### **a) Statement of Income and Expenditures**

We consider that the Financial Statement of funds received by the Foundation for the Conservation of Natural resources and Environment in Guatemala, as administrator of the aforementioned Forests Conservation Fund, reasonably presents, in all its important aspects, the income, expenditures incurred, payments made and assets acquired by the Program during the period comprised from January 1 to December 31, 2008, in accordance with the terms of the Agreement for Forest Conservation, and in conformity with the accounting base described in Note 3 (a) of the Statement of Income and Expenditures.

### **b) Financial statements of the TFCA Guatemala Trust**

We consider that the aforementioned financial statements reasonably present, in all important aspects, the financial situation of the TFCA Guatemala Trust for the period between October 27th to December 31st, 2008, the results of its operations and cash flow for the period ending on that date, according to the terms of the Agreement for Forest Conservation and in conformity with the accounting base described in Note 3 (a).

### **c) Internal control**

As a result of our internal control compliance tests, we did not identify significant deficiencies in the design or operation of the internal control structure that might adversely affect the administration capacity of the Program to register, process, summarize and report financial information in a consistent manner in the observations of Administration of the Statement of Income and Expenditures.

As part of our procedures we provided follow-up to the previous year's internal control report, identifying that the Fund's administration took action to correct or implement controls to solve each point mentioned in that report.

However, we observed certain issues related to internal control and its operation that we have reported to the Executive Director of FCG in a separate letter dated April 3, 2009.

**d) Compliance with the Agreement's terms, laws and applicable regulations**

Non-compliance material instances are failures to follow requirements or violations to the terms of the Agreement, laws and regulations that lead to conclude that accumulation of such failures or violations is material for the Statement of Income and Expenditures. As a result of our compliance tests, we did not identify material instances that significantly affect the Financial Statement.

**VI. FOLLOW-UP TO PREVIOUS AUDIT FINDINGS**

As part of our review, we provided follow-up to the findings contained in the internal control report issued to December 31, 2007 by the auditing firm Arévalo Pérez, Iralda y Asociados, S.C.

As a result of this procedure we identified that the Fund's management took actions to correct or implement control to solve each point mentioned in that report.

- Independent Audit Report
- General Balance of the Trust
- State of Results of the Trust
- Patrimonial State of Trust
- Cash Flow
- Income and Expenditures Statement
- Detail of Available Cash
- Notes to Financial Statements

**III. Internal Control System**

- Independent auditors' report

**IV. Compliance with agreement terms, applicable laws and regulations**

- Independent auditors' report



## TROPICAL FORESTS CONSERVATION FUND FCA PROGRAM

### INDEX OF CONTENTS

	Page
I. Introduction letter and executive summary	
Sirs,	
▪ Background	1
▪ Audit objectives	3
▪ Audit scope	3
▪ Audit procedures	4
▪ Audit results	5
▪ Follow-up of findings from previous audit	6
II. Financial Statements	
▪ Independent Audit Report	7
▪ General Balance of the Trust	9
▪ State of Results of the Trust	10
▪ Patrimonial State of Trust	11
▪ Cash Flow	12
▪ Income and Expenditures Statement	13
▪ Detail of Available Cash	14
▪ Notes to Financial Statements	15
III. Internal Control System	
▪ Independent auditors' report	23
IV. Compliance with agreement terms, applicable laws and regulations	
▪ Independent auditors' report	25

## INDEPENDENT AUDIT REPORT

### **Oversight Committee of the Tropical Forests Conservation Fund, FCA & Board of Directors of the Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG**

Sirs,

We have audited the Statement of Income and Expenditures for the year ending December 31st, 2008. This balance is the responsibility of the administration of the program "*Tropical Forests Conservation Fund*" related to a Debt Swap for Nature, and managed by the Foundation for the Conservation of Natural Resources and Environment in Guatemala (FCG). The presentation of this financial statement is responsibility of the Foundation for the Conservation of Natural Resources and the Environment in Guatemala (FCG). Our responsibility is to express an opinion about that financial statement, based on our audit. We have also audited the financial statements of the TFCA Guatemala Trust, that include the general balance to December 31, 2008 and related balance of results, changes in patrimony and cash flow for the period comprised between October 27, 2008 and December 31, 2008.

We executed our audits in accordance with the *International Audit Guidelines*. These guidelines require that we plan and execute the audit to obtain reasonable certainty that the Statement of Income and Expenditures and the Trust's financial statements are free of significant errors. An audit includes examination, based on selective tests, of the evidence of numbers and revelations presented in those statements. It also includes evaluation of the accounting principles used and the relevant estimates done by FCG, as well as evaluation of the general presentation of the Statement of Income and Expenditures and the financial statements of the Trust. We consider that our audits provide a reasonable base to express our opinion.

As described in Note 03, item a), the Statement of Income and Expenditures and the Financial Statements of the TFCA Guatemala Trust were prepared on the basis of cash accounting, which is an accepted integral base of accounting and different to the International Financial Information Guidelines - IFIN - that were adopted by the Guatemalan Institute of Public Accountants and Auditors as Accounting Principles Generally Accepted in Guatemala.

In our opinion:

- a) The aforementioned Statement of Income and Expenditures reasonably presents, in all material aspects, the incomes, costs incurred and reimbursed by the program "*Tropical Forests Conservation Fund*" during the year ending December 31st, 2008 according to the



terms of the Agreement for the Conservation of Forests, and according to the accounting base described in Note 03, item (a).

- b) In our opinion, the aforementioned financial statements reasonably present, in all their important aspects, the financial situation of the TFCA Guatemala Trust, for the period comprised between October 27 and December 31, 2008, the results of its operations and its cash flows for the period ending on that date, according to the terms of the Agreement for Forest Conservation and according to the accounting base described in Note 03, item (a).

This report was prepared to inform the Oversight Committee of the Forests Conservation Fund and the Board of Directors of the Foundation for Conservation in Guatemala (FCG). However, this report is a matter of public interest and its distribution will not be restricted.

  
**Raúl F. Lemus G.**  
CCPA Collegiate Member No. 188.

**LGFIRM, S. C.**  
External Auditors and Tax Counselor  
**MEMBERS OF THE GENEVA GROUP INTERNATIONAL**  
Swiss Firm of Auditing and Consultancy

Guatemala, April 03, 2009.

## TFCA - GUATEMALA TRUST

### General Balance

To December 31, 2008

(Expressed in US Dollars and Quetzales respectively)

<u>Assets</u>	<u>US\$</u>	<u>Q.</u>
Current Assets		
Supplies (note 9)	2,403	18,700
Total current assets	2,403	18,700
Other assets		
Long term investments (nota 10)	4,466,646	34,757,600
<b>Total assets</b>	<b>4,469,049</b>	<b>34,776,300</b>
<u>Liabilities and patrimony</u>		
Liabilities	--X--	--X--
<b>Patrimony</b>		
Primary capital		
Trusted patrimony (note 11)	4,908,117	38,192,951
Deductions of the trusted patrimony (note 12)	(449,648)	(3,460,074)
	4,458,469	34,732,877
Complimentary capital		
Result of the exercise	10,580	43,423
Total accounting capital	4,469,049	34,776,300
<b>Total liabilities and patrimony</b>	<b>4,469,049</b>	<b>34,776,300</b>

See notes that accompany financial statements.



## TFCA - GUATEMALA TRUST

### Balance of Results

From October 27, 2008 to December 31, 2008

(Expressed in US Dollars and Quetzales respectively)

	<u>US\$</u>	<u>Q.</u>
Initial balance (note 4)	4,713	1,133
<b><u>Products per allotment</u></b>		
Financial products	2,194	16,809
Products per operation in foreign currency (note 13)	14,201	108,788
	<u>16,395</u>	<u>125,597</u>
<b><u>Received Expenses</u></b>		
Expenses per operation in foreign currency (note 14)	10,506	80,483
Margin of investments	<u>5,889</u>	<u>45,114</u>
<b><u>Operation expenses</u></b>		
Taxes paid	219	1,681
Administration expenses	<u>1</u>	<u>10</u>
	220	1,691
<b><u>Other income</u></b>		
Difference per conversion (note 15)	4,911	--x--
<b>Result of the exercise</b>	<u><u>10,580</u></u>	<u><u>43,423</u></u>

See notes that accompany financial statements

For development of approved projects (note 12)

For administration expenses (note 12)

Complementary capital

Result of the Exercise

Total trusted patrimony

See notes that accompany financial statements

**TFCA GUATEMALA TRUST**  
**Statement of Trust Patrimony**  
From October 27, 2008 to December 31, 2008  
(Expressed in US Dollars and Quetzales respectively)

	<b>Primary capital</b>	<b>Complementary capital</b>	<b>US\$</b>
Initial balance (note 4)	4,713,685	10,580	4,713,685
<b>Contributions to the trusted patrimony</b>			
Contribution of the Ministry of Finances, November 2008, according to TFCA payments' flow (note 11)	194,432	194,432	194,432
<b>Reductions to the trusted patrimony</b>			
For development of projects approved (note 12)	(430,458)	(430,458)	(430,458)
For administration expenses (note 12)	(19,190)	(19,190)	(19,190)
<b>Complementary capital</b>			
Result of the exercise		10,580	10,580
<b>Total trusted patrimony</b>	<b>4,458,469</b>	<b>10,580</b>	<b>4,469,049</b>
	<b>Primary capital</b>	<b>Complementary capital</b>	<b>Q.</b>
Initial balance (note 4)	36,708,828		36,708,828
<b>Contributions to the trusted patrimony</b>			
Contribution from the Ministry of Finance, November 2008, according to TFCA flow of payments (note 11)	1,484,123		1,484,123
<b>Reductions to trusted patrimony</b>			
For development of approved projects (note 12)	(3,313,591)		(3,313,591)
For administration expenses (note 12)	(146,483)		(146,483)
<b>Complementary capital</b>			
Result of the exercise		43,423	43,423
<b>Total trusted patrimony</b>	<b>34,732,877</b>	<b>43,423</b>	<b>34,776,300</b>

See notes that accompany financial statements.



## TFCA GUATEMALA TRUST

### Cash Flow Statement

From October 27, 2008 to December 31, 2008  
(Expressed in US Dollars and Quetzales respectively)

	<u>US\$</u>	<u>Q.</u>
Cash flow in operation activities		
Net exercise result	10,580	43,423
Profit before changes in assets and liabilities	<u>10,580</u>	<u>43,423</u>
Changes in assets and liabilities:		
Trusted patrimony		
Cash received as donation (note 11)	194,432	1,484,123
Grant for project execution (note 12)	(430,458)	(3,313,591)
Disbursement for administration expenses (note 12)	(19,190)	(146,483)
	<u>(255,216)</u>	<u>(1,975,951)</u>
Net cash flows per operation activities	<u>(244,636)</u>	<u>(1,932,528)</u>
Cash flow per investment activities		
Per investment in certificates of deposit (note 10)	(4,466,646)	(34,757,600)
Net flow used in investment activities	<u>(4,466,646)</u>	<u>(34,757,600)</u>
Reduction of net increase of cash	(4,711,282)	(36,690,128)
Cash and equivalents at the beginning (notes 4 and 11)	<u>4,713,685</u>	<u>36,708,828</u>
<b>Cash and equivalents at end of year</b>	<b><u>2,403</u></b>	<b><u>18,700</u></b>

See notes that accompany financial statements

## TROPICAL FORESTS CONSERVATION FUND – FCA - PROGRAM DEBT FOR NATURE SWAP

In the framework of the Agreement for Forest Conservation between the Government of the Republic of Guatemala, The Nature Conservancy and Conservation International Foundation

Includes funds administered by the Foundation for the Conservation of Natural Resources and Environment in Guatemala –FCG– corresponding to the FCA program

### STATEMENT OF INCOME AND EXPENSES

Period ending December 31, 2008

(Expressed in US Dollars and Quetzales respectively)

FCG Administration Expenses Account and Donations Account

	<u>US\$</u>	<u>Q.</u>
Income (note 5)	634,868	4,858,115
Disbursements		
Grant for projects execution (note 6)	430,458	3,313,590
Operation expenses (note 7)	132,794	1,003,784
Administration expenses (note 8)	13,816	104,780
Operation surplus	57,800	435,961
Other financial expenses	1,440	10,924
<b>Surplus of net income and expenses of the year</b>	<u><b>56,360</b></u>	<u><b>425,037</b></u>

See notes that accompany financial statements

	Document	Quetzales	Dollars
09/30/2008	IV-No. 3009	200,000.00	25,700
11/17/2008	IV-No. 2004	36,508,808.30	4,657,987
	Total (see note 11)	36,708,808.30	4,683,687



## TROPICAL FORESTS CONSERVATION FUND –FCA -

### Detail of Cash Available

To December 31, 2008

(Expressed in US Dollars and Quetzales respectively)

	US\$	Q.
<u>Cash</u>		
<u>Bank Accounts</u>		
G & T Continental Bank 66-0009301-3	58,566	468,089
G & T Continental Bank 66-0009302-1	70	1,195
	<u>58,636</u>	<u>469,284</u>
Pre-paid per diem expenses, check 2826434	138	1,074
<b>Total cash available</b>	<b><u>58,774</u></b>	<b><u>470,358</u></b>
Excess income over expenses period 2007	5,824	45,321
Excess income over expenses period 2008	56,360	425,037
Difference in conversion	(3,410)	--X--
<b>Total equal to cash available</b>	<b><u>58,774</u></b>	<b><u>**470,358</u></b>

\*\* Surplus of income over expenses accumulated must be reported to the Oversight Committee so that this entity can decide about its use.

### Transfer of funds for the constitution of the Trust (see note 4)

On November 17<sup>th</sup>, 2008 the bank account No. 33-159-081770-5 from Banco Industrial registered the payments received from the Ministry of Public Finances and the bank interests generated in such account.

By fulfilling what was specified in the Debt for Nature Swap Agreement, on September 30<sup>th</sup>, an irrevocable trust contract for the administration and payment of accounts for the conservation of tropical forests in Guatemala was constituted with the deed 151 called "Guatemala Trust- TFCA", subscribed between the Foundation for the Conservation of Natural Resources and Environment in Guatemala, who is the Trustor, and Banco G&T Continental, S.A., who is the fiduciary.

Integration of the transfer of funds to the Trust on behalf of FCG to constitute the initial patrimony and to cancel the restricted account.

Date	Document	Quetzals	Dollars
09/30/2008	IV- No. 3009	200,000.00	25,702
11/17/2008	IV- No. 2004	36,508,828.39	4,687,983
	<b>Total (see note 11)</b>	<b>36,708,828.39</b>	<b>4,713,685</b>



## **1. Brief history and description of the Program “Tropical Forests Conservation Fund – FCA-”**

On September 8<sup>th</sup>, 2006, three agreements were signed simultaneously:

a) Debt Swap Agreement, signed by the Government of United States of America and the Government of Guatemala; b) Agreement for the Conservation of Tropical Forests, signed by the Guatemalan government and NGO's, and c) the Co-Financing Swap Agreement, signed by the Government of United States of America and international NGO's.

The process of acceptance of Guatemala within the Program for the Conservation of Tropical Forests promoted by United States started when interest was expressed by the Government of Guatemala to the Government of United States of America to become members of the program. After the requirements' evaluation, the Government of United States of America notifies Guatemala it is eligible to participate in the program. The amount authorized to finance the Program “Tropical Forests Conservation Fund –FCA-” is for the amount of US\$ 24,370,861, according to what was stated in Annex 1 of such agreement. The Program started on the date the agreement was signed (September 8<sup>th</sup>, 2006) and it is estimated that it will end on January 28<sup>th</sup>, 2021.

### **Program objectives**

1. Strengthen and promote alliances, leverage of resources, participation and contribution of key players (Donors, academic, private and public sector, communities and NGO's) for the fulfillment of the purposes of sustainable conservation and development authorized by the FCA.
2. Guarantee that the regions and specific areas are under functional management which contributes to the protection for the long term of the critical species and vulnerable ecosystems, through the active and relevant participation of local players.
3. Prevent and reduce the level of threats and pressure on biodiversity, natural resources and its surroundings, within the priority regions.

### **Areas to be covered by the Program**

As a final result and under consensus, it was determined that the priority geographic areas to be covered by the swap product are:

- Mayan Biosphere Reserve
- Western Volcanic Range
- Motagua –Polochic- Caribbean Coast Region
- Cuchumatanes Region



## **2. Brief History of the Program Administrator (Foundation for the Conservation of Natural Resources and Environment in Guatemala –FCG–**

The Trust for the Conservation in Guatemala began operations in 1991, constituted with the purpose to support processes of biodiversity conservation and sustainable use of natural resources.

With the objective to quicken the processes and services provided by the Trust, and with the idea to broaden its activities, on March 24, 2003 the Foundation for the Conservation of Natural Resources and Environment in Guatemala was registered on March 24<sup>th</sup>, 2003 in the Civil Registrar of Guatemala. This is a private, non-government organization, without political affiliation and with ecological and conservation goals.

FCG doesn't substitute the Trust-Guatemala TFCA. Both entities act jointly to provide a better and more efficient service to Partners and collaborators. From its creation, the Foundation is in charge of most operations of the environment fund and leaves the process of credits for productive and environmental projects in charge of the trust.

The general objective of the Foundation is to promote the conservation of biodiversity and the sustainable use of natural resources, the environmental management and sustainable development, through the execution and stable generation of funds, Management of projects and services, offer and execution of specialized services in the environmental area, project financing, as well as the management of environmental projects.

The mission of FCG is to request, manage and facilitate financial resources for the conservation and sustainable management of the natural patrimony in Guatemala. It does this through three programmatic lines: 1) grants, 2) sub-accounts and services, and 3) credits managed by the Trust.

The first programmatic line developed was that of grants, by which FCG has provided support to projects in almost all the territory of the country under the following lines of action: Protected areas, sustainable management of natural resources, environmental training and education, research, policies and environmental legislation and institutional strengthening. The beneficiaries of these funds (who implement the projects) include NGO's, individual researchers and government entities, among others.

During the signing of the agreement for the Conservation of Forests in September 2006 the Foundation for the Conservation of Natural Resources and Environment in Guatemala–FCG – was named as fund manager and in 2008, with the constitution of the Trust,–FCG – was constituted as the Trustor.



### **3. Main accounting policies**

#### **a) Presentation Bases**

The Statement of Income and Expenditures was prepared based on the cash, which is an integral base of accepted accounting and different to the International Guidelines of Financial Information –NIIF- which were adopted by the Guatemalan Institute of Public Accountants and Auditors, as the Accounting Principles generally accepted in Guatemala. According to such bases, the incomes are recorded at the moment they are received and the expenses are recorded when they are spent.

#### **b) Monetary unit**

The accounting records of the Program and of the Trust are kept in quetzales, official currency denomination in the republic of Guatemala. To December 31<sup>st</sup>, 2008, the Exchange rate for the quetzal (Q) versus the US\$ was Q 7.78159 per US\$ 1.00.

For the purpose of the presentation, the recorded figures are expressed in US dollars, using the closing exchange rate to convert the monetary transactions and the average exchange rate in the transaction of results.

### **4. Transfer of funds for the constitution of the Trust**

To fulfill what was specified in the Debt for Nature Swap Agreement through the public deed No. 151, on September 30th, 2008 and a contract was signed for irrevocable trust for the management and account payment for the conservation of tropical forests in Guatemala, called “Guatemala Trust- TFCA”, signed by the Foundation for the Conservation of Natural Resources and Environment in Guatemala, who is the Trustor, and Banco G&T Continental, S.A., who is the fiduciary.

Acting as administrator, the Foundation for the Conservation of Natural Resources instructs the fiduciary for the execution of the trust, under previous instructions from the Oversight Committee.

The trust receives payments that the Government of Guatemala makes to the debt service account.

The Trusted Patrimony represented by the goods and rights which are given to the trustee for the fulfillment of the trust goals is made up by the sums of money which go into the trust.



Integration from the transfer of funds to the Trust on behalf of FCG to constitute the initial equity and cancel the restricted account.

Date	Document	Quetzales	Dollars
09/30/2008	IV- No. 3009	200,000.00	25,702
11/17/2008	IV- No. 2004	36,508,828.39	4,687,983
	Total (see note 11)	36,708,828.39	4,713,685

The constitution of Q.200,000 was made through bank transfer and the second payment through the cashiers check No. A-2658973, from Banco Industrial S.A., dated November 17th, 2008.

There is a certificate issued by Mr. Hugo Arévalo Pérez from the firm Arévalo Pérez, Iralda y Asociados, S.C., a firm member of PKF International, where paragraph five of such document, textually points out the following: "CERTIFIES: that he read the receipt No. IV-2004 of Banco G&T Continental, S.A., by which and according to what was described in the agreement signed between the parts, Foundation for the Conservation of Natural resources and Environment in Guatemala and Banco G&T Continental, S. A., dated November 17th, 2008, it shows that the amount of Thirty-Six Million Five-Hundred and Eight Thousand Eight-Hundred and Twenty-Eight, 39/100 (Q.36,508,828.39) was given by the Foundation for the Conservation of natural Resources and Environment in Guatemala (FCG) to Banco G&T Continental, S. A., acting as trustor of the Trust Guatemala TFCA, who also has the responsibility to accredit it in account number 01 0036607-0 under the account name of Servicio de Deuda".

The Trusted Patrimony will be made up by the payments of the product corresponding to the FCA agreement according to annex I which are the payments received from the Ministry of Public Finances.

The goals of the trust are the following:

- Receive and manage the funds to be paid by the Government of Guatemala, deposited in the debt service account according to annex 1 of the agreement, as well as to distribute such resources in the form expected.
- Establish guidelines which will determine the Management of the trust funds on behalf of the fiduciary.

The funds for the trust will be used for the following:

- Provide funds for the accounts.
- Fulfill the objectives of the FCA through the selection of grant recipients.
- Cover the operation costs of the trust, as authorized by the Oversight Committee.
- Any other use allowed by the contract and by the FCA agreement.

The accounts are established as follows:

- a) The fiduciary of the trust has to open and keep an account in quetzales which will be called "Debt Service Account" under the FCA, to which the resources that the Guatemalan Government pays under the agreement framework will be deposited.
- b) The fiduciary or administrator of the trust will open and keep an account in US dollars which will be denominated as Endowment Fund Account of the FCA.

The investment of deposited resources will be done according to what was determined by the Oversight Committee through the administrator, at any moment, under the terms of the contract.

The fiduciary reported to the administrator or oversight committee about the number of each one of the accounts.

## **5. Incomes**

The detail of incomes from January 1<sup>st</sup> to December 31<sup>st</sup>, 2008 is the following:

	US\$	Q.
Cash donations (9.87% approved for administrative expenses)	204,212	1,543,019
Funds received for the 1 <sup>st</sup> phase of execution of the projects (See note 12)	430,458	3,313,591
Banking interests	198	1,505
	<b>US\$ 634,868</b>	<b>Q 4,858,115</b>

## **6. Grants for the execution of projects**

The grants for the execution of the projects of Q. 3,313,590 equivalent to US\$ 430,458 correspond to the first payment for the execution of seven projects approved to eligible entities in the first cycle of the FCA projects. (See note 12)



## **7. Operation expenses**

The detail of the operation expenses is as follows:

	US\$	Q.
FCG Grants (1)	111,161	839,711
Travel expenses (2)	6,060	45,961
Banking expenses (3)	4,185	31,744
Printed material	1,905	14,450
Transport	1,846	13,998
Meals in meetings	1,347	10,217
Miscellaneous expenses	5,118	38,816
Advertising	1,172	8,887
<b>Total</b>	<b>US\$ 132,794</b>	<b>Q 1,003,784</b>

## **8. Administrative expenses**

The detail of administrative expenses is as follows:

	US\$	Q.
Professional Fees (4)	13,356	101,295
Trainings	460	3,485
<b>Total</b>	<b>US\$ 13,816</b>	<b>Q 104,780</b>

- (1) FCG Grants correspond to the transfer of 54.42%, from 9.87% of the received income, for administrative expenses of FCG.
- (2) Travel expenses correspond to the expenses done to make events from the Fund, mainly to try matters related with the projects.
- (3) Expenses done to constitute the trust in Banco G & T Continental, S.A.
- (4) Corresponds to the expenses for professional fees mainly in legal counseling for the constitution of the trust and the making of the internal guidelines of the Oversight Committee.

## **9. Trust Availabilities**

The availability detail is as follows:

	US\$	Q.
Banco G & T Continental, S.A.,	1,944	15,126
Banco G & T Continental, S.A.(foreign currency)	459	3,574
<b>Total</b>	<b>US\$ 2,403</b>	<b>Q 18,700</b>

## 10. Trust Investments

The investment detail is as follows:

<u>Institution</u>	<u>Certificates</u>	<u>Expiration</u>	<u>Rate of interest</u>	<u>Value</u> <u>US\$.</u>	<u>Value</u> <u>Q.</u>
Banco G & T Continental, S.A.	123422	03/12/2009	9.25	642,542	5,000,000
Banco G & T Continental, S.A.	123423	03/12/2009	9.25	642,542	5,000,000
Banco G & T Continental, S.A.	123424	03/12/2009	9.25	642,542	5,000,000
Banco G & T Continental, S.A.	123425	03/12/2009	9.25	642,542	5,000,000
Banco G & T Continental, S.A.	95156	03/12/2009	9.25	978,592	7,615,003
Banco G & T Continental, S.A.	95157	02/02/2011	6.25	917,886	7,142,597
<b>Total</b>				<b>US\$ 4,466,646</b>	<b>Q 34,757,600</b>

## 11. Trusted Patrimony

The detail of the trusted patrimony is as follows:

	<u>US\$</u>	<u>Q.</u>
Initial trusted patrimony (See note 4)	4,713,685	36,708,828
Contribution of the Ministry of Finances (fee for November 2008)	194,432	1,484,123
<b>Total</b>	<b>US\$ 4,908,117</b>	<b>Q 38,192,951</b>

## 12. Deductions of the trusted patrimony

The detail of the deductions of the trusted patrimony is the following:

	<u>US\$</u>	<u>Q.</u>
Development of the 1 <sup>st</sup> phase of approved projects (See notes 5 and 6)	430,458	3,313,591
Administrative expenses (9.87% of the payment of the GOG corresponding to November 2008)	19,190	146,483
<b>Total</b>	<b>US\$ 449,648</b>	<b>Q 3,460,074</b>



### **13. Products per operation of foreign currency**

The detail is as follows:

<b>Name</b>	<b>US\$</b>	<b>Q.</b>
Exchange differential	13,687	104,853
Interest in dollar account	514	3,935
<b>Total</b>	<b>US\$ 14,201</b>	<b>Q. 108,788</b>

### **14. Expenses per foreign exchange currency**

Corresponds to the result obtained from the difference in the exchange rate per operations in foreign currency.

### **15. Conversion difference**

Result from the conversion of the registered entity's operations in quetzales to American dollars for presentation purposes.



## Independent Auditor's report on the Internal Control System

Sirs

**Oversight Committee of the Tropical Forests Conservation Fund –FCA-  
and Board of Directors the Foundation for the Conservation of Natural Resources and  
Environment in Guatemala –FCG-**

We have audited the Statement of Income and Expenditures for the year finished on December 31<sup>st</sup>, 2008, from the program "Tropical Forests Conservation Fund" in regard to a debt for nature swap and administered by the Foundation for the Conservation of Natural Resources and Environment in Guatemala –FCG–. We have issued our report for the aforementioned dated April 3<sup>rd</sup>, 2009, in which we have expressed an opinion without reservations.

Our audit was done according to the International Audit Guidelines. These guidelines require us to plan and make the audit with the purpose to be reasonably certain that the Statement of Income and expenditures is free of significant errors.

When planning and making our audit for the Statement of Income and Expenditures of the Program, we considered the internal control structure, with the goal to determine our audit procedures to express our opinion regarding the financial statement mentioned and not to give an opinion regarding the internal control structure. Therefore, we do not express such an opinion.

FCG is responsible to establish and maintain internal control. To fulfill this responsibility, judgments and approximations are required on by the administration to evaluate the expected benefits and the costs relative to the policies and procedures of internal control. The objectives of internal control are to provide management with a reasonable, but not absolute, that the assets are protected against losses by non-authorized uses or dispositions; the transactions are made according to the authorizations of the administration, approved by the Oversight Committee and the terms of the Agreement for the Conservation of Forests; and the transactions are registered properly to allow the preparation of the financial statement, according to the accounting base described in Note 03 of the financial statement.

Due to limitations inherent to internal control, errors or irregularities can occur and not be detected. Also, the projection of any evaluation of the structure to future periods will be subject to the risk that the procedures become inadequate due to changes in the conditions or that the effectiveness of the design and the operation of policies and procedures can deteriorate.

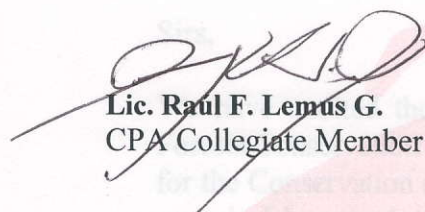
Our consideration about internal control doesn't necessarily show all aspects of internal control which could be material deficiencies under the guidelines established by the Guatemalan Institute of Public Accountants. A material deficiency is a reportable condition in which the design or operation of one or more specific elements of internal control does not reduce to a relatively low level the risk



that error or irregularities in amounts material to the financial statement could occur and not be detected in a timely manner by the employees in the normal performance of their functions. We did not observe any matters related to internal control and its operation that we considered to be a material deficiency regarding the previous definition.

However, we observed certain issues related to internal control and its operation which we have reported to the executive directors of the –FCG– in a letter dated April 3<sup>rd</sup>, 2009.

The purpose of this report is to inform the Oversight Committee of the Forests Conservation Fund and the Foundation for the Conservation of Natural Resources and Environment in Guatemala –FCG–. However, this report is a matter of public interest and its distribution is not restricted.



**Lic. Raul F. Lemus G.**  
CPA Collegiate Member No. 188.

**LG FIRM, S. C.**  
External Auditors and Tax Counselor  
**MEMBERS OF THE GENEVA GROUP INTERNATIONAL**  
Swiss Firm of Auditing and Consultancy

Guatemala, April 3<sup>rd</sup>, 2009.



**INDEPENDENT AUDITORS' REPORT REGARDING THE  
COMPLIANCE WITH TERMS OF THE AGREEMENTS, APPLICABLE LAWS  
AND REGULATIONS**

Oversight Committee  
Tropical Forests Conservation Fund, FCA  
& Board of Directors  
Foundation for the Conservation of Natural Resources and  
Environment in Guatemala.

Sirs,

We have audited the Statement of Income and Expenditures of the Program "Tropical Forests Conservation Fund" in regard to a debt for nature swap, managed by the Foundation for the Conservation of Natural Resources and Environment in Guatemala – FCG –, for the period of January 1st to December 31st, 2008. We have issued our audit report dated April 3rd, 2009, where we express an **opinion without reservations**.

We undertook our audit according to the International Audit Guidelines. These guidelines require for us to plan and do the audit with the purpose to be reasonably certain in regard to the Statement of Income and Expenditures, to make sure it is free of material distortions which could result in violations of the terms of the agreement and the laws and regulations which have a direct and material effect when determining the amounts in such financial statement.

Compliance with the terms of the agreements, laws and regulations applicable to the "Tropical Forests Conservation Fund" Program is the responsibility of the management of the Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG. To obtain reasonable certainty that the Statement of Income and Expenditures is free of material distortion, we executed compliance tests of the "Tropical Forests Conservation Fund" Program with certain terms of the agreement, laws and regulations. However, our objective was not to express an opinion regarding general compliance with such clauses. Therefore, we do not express such an opinion. We also did compliance tests for the Foundation for the Conservation of Natural Resources and Environment in Guatemala – FCG– following the terms of the agreement, laws and regulations applicable to contributions of shared costs.



The results of our tests did not reveal non-compliance events that require to be reported.

In our opinion, the Statement of Income and Expenditures to December 31, 2008 of the Tropical Forests Conservation Fund Program is presented reasonably, in all material aspects, according to the terms of the agreements and in conformity with the accounting base described in Note 3 (a) of the Statement of Income and Expenditures.

This report was prepared to inform the Oversight Committee of the "Tropical Forests Conservation Fund" Program and the Foundation for the Conservation of Natural Resources and Environment in Guatemala, FCG. However, once it is distributed, this report is a matter of public interest and its distribution will not be restricted.



**Raúl E. Lemus G.**  
CCPA Collegiate Member No. 188.

**LG FIRM, S. C.**  
External Auditors and Tax Counselor  
**MEMBERS OF THE GENEVA GROUP INTERNATIONAL**  
Swiss Firm of Auditing and Consultancy

Guatemala, April 3<sup>rd</sup> 2009.