

ONG NIÑOS DE GUATEMALA

AUDIT REPORT

Period ended

As of December 31, 2015 and 2014

ONG NIÑOS DE GUATEMALA
Report on the Institutional Audit
As of December 31, 2015

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ONG NIÑOS DE GUATEMALA

JURIDIC AND LEGAL SITUATION

As of December 31, 2015

1. BACKGROUND

- a) **Legal status:** ONG NIÑOS DE GUATEMALA
- b) **Constitution:** On August 10, 2007, as per legal deed number 83 issued by the lawyer José Luis González.
- c) **Kind of entity:** Constituted as a Civil Association, a private, not profit, do not representing any political party, entity for the social, cultural and educational development of the children and the youth in Guatemala, created under the concept of a non-governmental organization..
- d) **Legal Representative:** In March 10, 2015 was issued the legal act to appoint lady the president Tara Olivia McLaughlin and legal representative legal.
- e) **Address and headquarters:** At the Department of Sacatepéquez, with headquarters at the town of Antigua Guatemala..
- f) **Tax period and term of constitution:** From January 01 through December 31 of each year and it was constituted by an undefined term..
- g) **Objective:** To promote and develop actions to the poor children in order to enhance their quality of life meeting other basic needs of education, home, food, health and environment.
- g) **Fines:** ✓ The creation, functioning and trading, leasing, and functioning, obtaining through any legal way, schools for the

educational strengthening of the pre-primary, primary, secondary and diversified or vocational grades and other courses regarding the educational area.

- ✓ The creation and functioning of learning and teaching centers for technical, cultural, artistic, cultural and scientific areas.
- ✓ The creation and functioning of vocational workshops.
- ✓ The functioning of academies for typing, computer, internet (including any other electronic communication media)
- ✓ To create day-care centers for children.
- ✓ To promote the psychological, medical and food assistance to the children and youth taking part of the educational programs and the vocational workshops.
- ✓ To manage the acquisition of resources and national and international financing methods to fulfill its objectives and goals.
- ✓ To support the community in the social, educational, health and environment areas.
- ✓ Any other related or similar to the above mentioned matters, to benefit the associates and the community, benefitting the accomplishment of the objectives of the Association.

h) Social objective:

According to its statutes, the objective of the entity is to promote and develop actions for the girls, children and young people with limited economic resources, in order to enhance their quality of life, satisfying their basic needs of education, home, food, health and environment; and it is devoted to the following activities:

- ✓ Establishing and operating, buying and selling, leasing or obtaining, by any legal means, schools for the strengthening of the education at the different levels, kindergarten, first grade, secondary school, upper secondary education and other courses related with the educational area.
- ✓ Establishing and operating learning and training centers for technical, artistic, cultural and scientific areas.
- ✓ Establishing and operating vocational workshops.
- ✓ Operating of typing, computing and internet academies and of any other electronic communication media.
- ✓ Establishing of day care services for children.
- ✓ Providing psychology, medical and food care to the children and Young people taking part of the educational programs and vocational workshops.
- ✓ Doing the necessary arrangements to obtain national and international funding to achieve its objective.
- ✓ Supporting the community in the social, educational, health and environment areas.
- ✓ Any other related or similar to the above mentioned which benefit the associates and the community, contributing with the achievement of the Association's objective.

1.2 Integration of the Board of Directors

Changes in the Board of Directors for the following positions, for the term of two years, were made by means of the entry No. 10,790 page 10,790 of the appointments book 1.

<u>Name</u>	<u>Position</u>
Tara Olivia McLaughlin	President and legal representative
Maribel Duarte Arcón	Vice-president
María del Carmen Paniagua Meza	Secretary
Sander Jori Wirken	Treasurer
Jorge Alberto Rosales Diéguez	Vocal

ACCOUNT PUBLIC AND INDEPENDENT AUDITOR´S REPORT

Messrs.
Board of Directors
ONG NIÑOS DE GUATEMALA
Sacatepéquez, Antigua Guatemala

We have audited the attached financial statements of the ONG Niños de Guatemala, for the period ended December 31, 2015 and 2014, corresponding to the statements of assets and liabilities, statement of income and disbursements and cash flows, for the year then ended, as well as the summary on the significant accounting policies and explanatory notes

Responsibility of the administration on the financial statements

The Administration of ONG Niños de Guatemala is the responsible for the preparation and presentation of the financial statements and the supplementary information, as well as for the establishment of the necessary policies and procedures in order that amounts shown in this report are free of any material misstatement, both by fraud or error.

Responsibility of the auditor

Our responsibility is to express and opinion on the financial statements based on our audit, which was conducted according to the International Auditing Standards. Those standards require that we fulfill ethical requirements and that we plan and perform the audit to obtain fairly assurance about whether the financial statements are free of material misstatements.

An audit implies the development of some procedures to obtain enough and competent evidence about the amounts and disclosures presented in the financial statements. The procedures chosen will depend on the auditor´s judgment, including the risk assessment of a significant misstatement on the presentation of the financial statements, both by fraud or error. Doing this assessment, the auditor considers the internal control is relevant for the fairly preparation and presentation of the financial statements, with the purpose to design and the appropriate auditing procedures under the circumstances; but not to express an opinion on the effectiveness of the entity´s internal control. An audit also includes the assessment on the effectiveness of the accounting policies and


the fairness of the accounting estimations made by the administration, as well as an overall assessment on the presentation of the financial statements.

Opinion

In our opinion, except for what it is mentioned in the above paragraphs, the accompanying financial statements of the Association, fairly present, in all material respects, the financial position of the entity, the statements of assets and liabilities, the income and disbursements and the cash flows, for the year ended December 31, 2015, as well as the basis of accounting used by the Association.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we call your attention to Note 1.1 of the financial statements, which describes the basis of accounting used by the ONG Niños de Guatemala, consequently, the financial statements may be not be adequate to be used with another purpose. Distribution and use of this document remains upon discretion of the ONG Niños de Guatemala and its supporting donor agencies.



Lic. Walter Hernández Monroy (Ms)
Public accountant and auditor
Register No.CPA-3,783

Guatemala, February 25, 2016

ONG NIÑOS DE GUATEMALA
Report on the institutional audit

STATEMENT OF ASSETS AND LIABILITIES

As of December 31
(Amounts in Quetzals)

<u>ASSETS</u>	Note	Page	2015	2014
Current assets				
Cash and banks	(4)	(17)	979,987	794,841
Accounts receivable	(5)	(19)	13,855	14,375
Total current assets			993,842	809,216
Non current assets				
Properties and real state	(6)	(20)	1,961,667	-
Total non current assets			1,961,667	-
Total assets			2,955,509	809,216
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable	(7)	(21)	479,705	594,070
Total liabilities			479,705	594,070
EQUITY				
Retained earnings			215,147	313,998
Net income (loss)			383,230	(98,852)
Reserva por capitalización de activos fijos			1,877,427	-
Total equity	(8)	(21)	2,475,804	215,146
Total liabilities and equity			2,955,509	809,216

(See notes to the financial statements)

ONG NIÑOS DE GUATEMALA

Report on the institutional audit

STATEMENT OF INCOME AND DISBURSEMENTS

As of December 31
(Amounts in Quetzals)

	Annex	Note	Page	2015	2014
INCOME		(1.1)	(10)		
Donation program NDG NL		(9.1)	(22)	1,603,298	1,166,508
Sponsorship program		(9.2)	(22)	976,311	1,182,315
GT donations		(9.3)	(22)	2,394,485	1,136,711
Other income		(9.4)	(23)	209,632	102,240
Subtotal Income				5,183,726	3,587,774
Financial income				937	-
Total Income				5,184,663	3,587,774
DISBURSEMENTS		(1.1)	(10)		
Salaries and benefits				2,135,521	1,497,206
Office expenses				360,844	461,241
Infrastructure and maintenance				53,626	846,955
Transport				8,742	13,048
Training and development				15,073	26,521
Food and health				420,217	341,797
Educative materials				317,430	425,716
Promotional expenses				33,356	6,349
Other				9	-
Variation values				32,000	-
Financial expenses				22,089	67,793
Depreciation fixed assets				1,402,526	-
Total disbursements	(A)			4,801,433	3,686,626
Surplus of income on disbursements				383,230	(98,852)

(See notes to the financial statements)

ONG NIÑOS DE GUATEMALA
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STATEMENT OF CASH FLOW

As of December 31
(Amounts in Quetzals)

	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	383,230	(98,852)
Adjustments to net income (loss)		
Depreciaciones y amortizaciones	1,402,526	
Net adjustment of balance sheet accounts affecting cash	-	585,970
Accounts receivable	520	(8,209)
Accounts payable	(114,364)	4,271
Cash flow from operating activities	<u>1,288,682</u>	<u>582,032</u>
CASH FLOW FROM INVESTING ACTIVITIES	1,288,682	
Cash outflows from investments		
Imobilized material	(1,486,766)	-
Cash flow from investing activities	<u>(1,486,766)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	185,146	483,180
Cash and cash equivalents at the beginning of the year	794,841	311,661
Cash and cash equivalents at the end of the year	<u><u>979,987</u></u>	<u><u>794,841</u></u>

ONG NIÑOS DE GUATEMALA
Report on the Institutional Audit
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 2015

1. ACCOUNTING POLICIES

1.1 Method of recognizing income and disbursements

ONG Niños de Guatemala, prepares its financial statements based on the accrued method; in this case, income are recognized and recorded when they are accrued and disbursements are also recognized and recorded when they are accrued. Such procedure for accounting records is a comprehensive and accepted one.

1.2 Property, plant and equipment (Fixed assets)

Acquisitions of fixed assets for the use of ONG, they are recorded at cost. It has a policy perform capitalizations of such goods, registering them as property, plant and equipment.

Fixed assets are initially recognized at their acquisition price or production cost and are subsequently reduced by related accumulated depreciation and impairment losses. If any, they will be valued by using the so-called "impairment test" which assesses the existence of impairment that reduces the recoverable value of the assets at below their book value.

Upkeep and maintenance of various components of fixed assets are recorded in the profit and loss statement in the year they are incurred. By contrast, the amounts invested in improvements contributing to increased capacity, efficiency or extending the useful life of these assets, are recorded at a greater cost.

Depreciation is computed by the straight line method, according with the estimated useful life of the assets, taking as a basis the percentages established as per Article 28 Decree 10-2012 of the Tax Updating Law are used for the estimation of accrued depreciations; which are the following:

Assets	Estimated years of useful life	Percentage applicable
Vehicles	5	20%
Furniture and equipment	5	20%
Computer equipment	3	33.33%
Equipment and Tools	4	25%
Other	20	5%

Critical aspects of valuation and estimating uncertainty

In creating the Annual Accounts, estimates were made by the organization's Financial Management in valuing certain assets, liabilities, incomes, expenditure and other registered amounts within the accounts. These estimations in short refer to:

- The evaluation of possible losses due to the impairment of certain assets (see Note 6).
- The useful life of fixed assets (see Note 6).

Despite these estimates, which were based on the best available information at the end of 2015, it is possible that certain future occurrences would require the estimations to be modified (either increased or decreased) in the next financial years which if it were to happen, would be modified on a prospective basis.

During 2015, the ONG capitalized its fixed assets in the Balance Sheet. With regard to the valuation of buildings, due to their unique structure and use as schools, the ONG considers that they would be very difficult to sell in the future, which therefore significantly affects their fair value. In addition, it is unlikely that the ONG would be able to sell these schools for the value of the land and the dismantling costs are expected to be similar to the costs of construction, or wouldn't be significantly different. For this reason, the ONG considers the fair value of the buildings to be close to zero and thus recognizes a 100% impairment for Q 5,142.934.00 during 2015.

1.3 Presentation basis

Normative framework of financial information applicable to the ONG

These Annual Accounts were formulated by the Board of Directors according to the normative framework of financial information applicable to the ONG and that is established in:

- a) Civil Code and current legislation.
- b) The generally accepted accounting principles adopted by the Guatemalan Institute of public accountants and auditors.
- c) The mandatory rules approved by the Guatemalan Institute of public accountants and auditors.
- d) The remaining accounting rules as a result of application.

1.4 Fair presentation

These Annual Accounts have been created from the ONG's accounting registers and are presented according to the financial information normative framework. In particular, it is presented according to generally accepted accounting criteria and principles in force in Guatemala.

The accounts have been prepared in a way that gives a fair presentation of the assets and equity, the financial situation and the ONG results achieved during the corresponding

financial year. These Annual Accounts will be submitted to the Board of Directors, estimating that they will be approved without any modification.

1.5 Non-mandatory accounting Principles applied

Non-mandatory accounting principles have not been applied. Furthermore, these Annual Accounts have been prepared taking into full consideration the accounting principles and rules for mandatory application which have had a significant effect on the Annual Accounts. All mandatory accounting principles have been applied.

1.6 Indemnizaciones por despido

According to current legislation, the ONG is required to pay severance to employees with whom, under certain conditions, terminate their employment. Therefore, severance pay can be reasonably quantified and expensed in the year in which the dismissal decision is taken. The accompanying financial statements do not include any provision for severance as they are unforeseen situations. ONG made payments in the amount Q. 40,061.70 and Q. 16,734.90 during the periods 2015 and 2014 as indemnity payments.

1.7 Provisions and Contingencies

In the formulation of the Annual Accounts, the ONG differentiates between:

a) **Provisions:** credit balances covering present obligations arising from past events where there is a likely outflow of resources but is uncertain as to its amount and /or timing.

b) **Contingent liabilities:** possible obligations that arise from past events and whose future is conditioned to happen beyond the control of the ONG.

The annual report includes all the provisions with respect to which it is estimated that the probability of meeting the obligation is greater than otherwise. Provisions are measured at present value of the best possible estimate required to settle or transfer the obligation, taking into account the information available, and recorded adjustments arising for updating such provisions as a financial expense on an accrual basis.

1.8 Leases

Leases are classified as finance leases whenever the conditions reveal that the lease substantially transfers all the risks and benefits of ownership of the asset to the lessee. All other leases are classified as operating leases.

Operating Leases

The costs of the operating lease of the ONG office are credited to the profit and loss statement in the year they are incurred. Any charge or payment made on contracting an operating lease will be treated as a prepayment credited or debited to the profit and loss statement over the lease term as they are assigned or receive benefits of the leased asset.

1.9 Financial Instruments

I. Financial Assets

The financial assets held by the ONG are classified in the following categories:

a) **Receivables:** advances to be settled, advances to employees and donations receivables. They are financial assets that do not have commercial substance nor are equity instruments nor derivatives. Their fees are fixed or determinable and are not traded in an active market.

They are initially measured at a fair value, which unless there is evidence to the contrary, is the transaction price, which equals the fair value of the amount paid plus transaction costs that are directly attributable. Subsequently they are measured at a devalued cost.

b) **Cash and cash equivalents:** include both cash and bank deposits. Other cash equivalents are short-term investments with maturities above three months and are not subject to a significant risk of changes in value.

The ONG does not have financial assets that are not carried at fair value. Therefore, the ONG does not perform an impairment test for assets that are not carried at fair value.

The ONG derecognizes financial assets when they expire or when the rightsover cash flows of an asset have been cede andtherisks and rewards of ownership have been substantially transferred.

II. Financial Liabilities

Financial liabilities include debits and accounts payable that have arisen from the purchase of goods and services or, even if they do not have commercial substance, cannot be considered as derivative financial instruments.

Debits and accounts payable are initially measured at fair value of the amount received, adjusted for directly attributable transaction costs. Subsequently, these liabilities are valued at amortized cost.

The ONG derecognize financial liabilities when the obligations have been fulfilled and finished.

1.10 Changes in accounting principles

The 2015 annual report has been prepared based on the accrual basis, i.e., income and expenses are recognized and recorded when they are earned. The most significant impacts at the end of 2015 are as follows:

Q.70,925.00 was debited in “Wages and salaries - other benefits” and credited in “Accrued income” corresponding to the deferral of Aguinaldo and Bono 14 (see Note 7).

Q.23,878.00 was debited in “Other operating expenses” and credited in “Short-term provision” corresponding to general expenses (see Note 7).

Q.5,972.00 was debited in “Accounts receivable - prepaid expenses” corresponding to the annual payment of the insurance policies of the three buildings and the car (see Note 5).

1.11 Correction of errors

During the review of the financial statements for 2014, dated April 30 2015, the auditor issued a qualified opinion based on the following caveats:

- ✓ Equity in the amount of Q 215,146.00 are not integrated, consequently we do not know its origin.
- ✓ The total fixed assets available for the use of the Association are not integrated, not are recorded in the financial statement.

During 2015, the ONG corrected these two situations with the following impact on the balance sheet and profit and loss statement for the year 2015 (amounts in Quetzals):

- a) Fixed assets in the amount of Q 1,961,667 was capitalized (see Note 7) and a “Reserve for capitalization of fixed assets” in the amount of Q 1,877,427 has been recorded corresponding to previous years’ purchases of property, plant and equipment, as well as construction costs.
- b) During 2015, the ONG completed the construction of the Basico School and the construction cost amounted to Q 1,321,811. As described in Note 2.4 and Note 7, the ONG impaired 100% of the construction costs so that the fair value of the buildings at the end of the year amount to zero quetzals. (see Note 6).
- c) Equity at the beginning of the year was reclassified as follows:

	Capital	Retained earnings	Net income (loss)	Total Equity
BALANCE AT THE END OF 2014	215,146	-	-	215,146
Adjustments	(215,146)	313,998	(98,852)	-
ADJUSTED BALANCE, BEGINNING OF 2015	-	313,998	(98,852)	215,146

2. MONETARY UNIT

The financial statements are stated in Quetzals, the monetary unit of the Republic of Guatemala. The Bank of Guatemala periodically publishes the reference exchange rate to be used by the banking system; As of December 31, 2015 and 2014 it was of Q.7.63237 y Q.7.59675 per US\$1.00, respectively.

Transactions in foreign currency

The ONG's functional currency is the quetzal, official currency of the Republic of Guatemala. Therefore, transactions in currencies other than the quetzal are considered as foreign currency and are recorded at the exchange rates prevailing at the date of transactions.

At year-end, assets and liabilities denominated in foreign currencies are translated at the exchange rate at the balance sheet date. Profits or losses are recognized directly to the profit and loss statement in the year they occur.

3. LABOR OBLIGATIONS

ONG according with the laws in force in the country, the Association is obliged to its personnel for the following:

3.1 Christmas Bonus

According to Decree 76-78 of the Congress of the Republic of Guatemala, all employers are obliged to pay their employees as a Christmas Bonus, the equivalent of an ordinary monthly salary, for each year of continuous work of the corresponding proportional part. It must be paid 50% during the first half of the month of December and the remaining 50% during the second half of the month of January of the following year.

ONG follows the policy to pay the 100% during the month of December each year, and performs the respective provisions.

3.2 Indemnity payment

According to Article 82 of the Code of Work, Decree 1441, item 9 of the Regulatory Law for the Christmas Bonus, Decree 76-78 and article 4 of the Law for the Annual Bonus for workers of the private and public sectors, Decree 42-92, indemnity must be computed using as a basis the average of the salaries for the last 6 months, adding the twelfth part of the Christmas Bonus and the 14 Bonus, such computation applies for each year worked. The employer is only obliged to pay for this concept in the case of an unfair dismissal.

ONG Guatemalan Children pays it in accordance with the preceding paragraph.

3.3 14 Bonus

Decree 42-92 of the Congress of the Republic of Guatemala, establishes like a fringe benefit obliged to all employers, the payment to their workers of an annual bonus equivalent to an ordinary monthly salary, such payment is independent and additional to the Christmas Bonus.

ONG Guatemalan Children pays it in accordance with the preceding paragraph, by means of a single payment during the month of July.

3.4 Vacations

According to Decree 14-41 of the Code of Work issued by the Republic of Guatemala, in its article 130, each employee has the right to enjoy a minimum period of 15 days of vacations after a year of continuous work to the same employer; such a period should be effective during the sixty days following the year of continuous service.

As an institutional policy, granted 15 day vacation to their employees, or that part should be worked less than a year. This work benefit is granted in accordance indicating the Labour Code, as indicated by the preceding paragraph; or by agreement between the worker and the entity.

3.5 Incentive Bonus

Decree No.78-89 modified by the No.37-2001 issued by the Congress of the Republic of Guatemala, establishes the obligation to all employees of the private sector, no matter which activity they develop, to pay their employees an incentive bonus equivalent to the amount of Q.250.00 to be paid monthly.

3.6 Social Security (IGSS)

Agreements numbers 1118 and 1123 issued by the Board of Directors of the Instituto Guatemalteco de Seguridad Social (IGSS), in use of their powers awarded by the article 183 number e) of the Political Constitution of the Republic of Guatemala, and the article 19, item a) of the Organic Law of the IGSS, states that each employer, individual or legal entity, employing three or more employees, is obliged to be enrolled before the Social Security Regime and also to discount their employees from their total salary the percentages corresponding to the employees contribution, as well as to pay its employer's contribution to the IGSS as follows:

<u>Description</u>	<u>%</u>
IGSS employer's contribution (paid monthly by the employer)	10.67
Employees' labor contribution (discounted monthly to employees)	<u>4.83</u>
Total	<u>15.50</u>

ONG is enrolled before the IGSS and discounts its employees working under dependency the corresponding amounts. Fulfilling that way with the above mentioned dispositions.

3.7 INTECAP

The Instituto Técnico de Capacitación y Productividad (INTECAP) was created through Decree 17-72, issued by the Congress of the Republic of Guatemala, with the purpose to strengthen the training to the human resources and increase productivity in all of the areas of the economic activity, by providing different development programs to the workers, according to Article 6 of the above mentioned decree.

This benefit conferred to the workers is not an obligation for employers, it is optional, and the payment is estimated using the basis salary of each worker adding 1% to the employer's contribution paid to IGSS.

ONG Guatemalan Children does not grant their employees the benefit of INTECAP.

3.8 IRTRA

The Institute for the Workers Recreation (IRTRA) was created by means of the Decree 1528 issued by the Congress of the Republic of Guatemala, with the purpose to organize leisure and recreation of the workers, in order they develop in an integral way their personality and improve their handling of their free time.

This benefit conferred to workers is not an obligation for the employers, it is optional, and the payment is estimated using the basis salary of each worker and the way to do it is increasing the 1% to the employer's contribution paid to IGSS.

ONG Niños de Guatemala policies does not confer such benefit to its employees.

4. CASH AND FLOW

Los Bank balances are available and there is no restriction for the ONG to use them for project implementation and operational activities. Joint signatures are used when issuing checks..

Bank balances as of december 31, 2015y 2014 are integrated as follows: (Amounts in Quetzals)

ACCOUNT NAME	ACCOUNT No.	2015	2014
Petty Cash			
Income Generation Department		4,000	4,000
Nuestro Futuro School		3,000	3,000
El Porvenir School		3,000	3,000
ONG Niños de Guatemala		3,000	3,000
Basico School		1,500	1,000
Sub-Total		14,500	14,000
Banco Industrial, S.A.			
NGO Main Account (monetarydeposit)	016-003233-4	38,076	717,981
Nuestro Futuro (monetarydeposit)	016-004629-2	29,945	27,289
El Provenir (monetarydeposit)	016-005329-8	19,329	26,250
Construction account (monetarydeposit)	016-008927-2	252,926	-
Group account (monetarydeposit)	016-009500-6	14,607	-
Institutional Savings Account	27544-1	381,738	8,321
Basico (monetarydeposit)	016-008927-2	23,214	1,000
Account in USD	016-003241-7	205,652	
Sub-Total		965,487	780,841
TOTAL		979,987	794,841

Single signatures are used to issue checks, and the people who are authorized to sign them are the following:

Name

Position

María del Carmen Paniagua Meza
Maribel Duarte Arcón

Projects Coordinator
Education Manager

Information on the nature and level of risk

The management of financial risk is centralized in the Finance Department that has established mechanisms to control exposure to changes in exchange rates as well as credit and liquidity risks. The main financial risks affecting the ONG are:

a) Credit risk:

In general, the ONG maintains its cash and cash equivalents at Industrial Bank SA, a financial institution with high credit ratings. In addition, most of its accounts receivable as of 31/12/2015 are donations receivables and prepaid expenses for amounts that do not represent a significant concentration of credit risk with third parties (see note 5).

b) Liquidity risk:

In order to ensure liquidity and meet all payment obligations, the ONG has the cash shown in its balance sheet as well as the various sources of income. (see note 9).

c) Market risks (including interest rates, exchange rates and other price risks):

The ONG does not have financial debts so its exposure to interest rate risk is minimal, only through bank balances detailed above do interest rates affect the ONG. For this reason, the possible adverse effects of interest rates variations would be minimal.

Regarding the exchange rate risk, the effect is primarily on donations and income from the sponsorship program from the Netherlands and the United States in euros and US dollars, respectively. In order to mitigate this risk, Financial Management keeps up to date regularly with exchange rates and analyzes the potential impact on cash flows. It is also important to mention that the ONG does not maintain accounts receivable in foreign currencies.

5. ACCOUNT RECEIVABLE

As of December 31 2015 and 2014, account receivable are integrated as follows:
(Amounts in Dollars and Quetzals)

Description	2015	2014
Prepaid expenses	5,972	-
Donations receivables	6,883	-
Advances outstanding settlement	-	10,000
Advances to employees	1,000	4,375
Total	13,855	14,375

6. PROPERTY, PLANT AND EQUIPMENT

It is integrated as follows: (Amounts in Quetzals)

Description	Ajustes por registro de activos al 01/01/15	increase / Charges	Decrease / Payment	31/12/2015
Furniture and Equipment				
Furniture and office equipment	190,649	69,232	-	259,881
Computer equipment	93,927	13,049	-	106,976
Tools, dishes, silverware and similar	38,758	10,359	-	49,117
Vehicles	30,000	-	-	30,000
Others	15,890	17,750	-	33,640
Subtotal	369,224	110,390	-	479,614
Land and Buildings				
Land	1,673,593	60,465	-	1,734,058
Buildings	3,821,123	1,321,811	-	5,142,934
Construction in progress	5,900	1,315,911	(1,321,811)	-
Subtotal	5,500,616	2,698,187	(1,321,811)	6,876,992
Depreciación y amortización acumulado				(5,394,939)
Total neto	5,869,840	2,808,577	(1,321,811)	1,961,667

As a result of the audit of the 2014 annual report, the auditor advised that there was no integration of equity or total assets. During 2015, the ONG capitalized its fixed assets in the Balance Sheet. Regarding the valuation of buildings, due to their specific use as schools, the ONG considers that they would be very difficult to sell in future, which therefore significantly affects their fair value. Even in the unlikely scenario that the ONG could sell these schools for the value of the land, the costs of dismantling the buildings are expected to be similar to the construction costs, or at least will not differ significantly. For this reason, the ONG believes that the fair value of the buildings is close to 'zero' and therefore recognized an impairment of the value of the buildings amounting to Q,5,142,934.00 during the year 2015.

In 2015, the ONG built the school Nuestro Futuro Basico, whose construction cost amounted to Q.1,321,811.00. Similarly, as stated in the previous paragraph, the ONG has recognized an impairment of the value of total construction cost during the year 2015, amounting to Q.1,321,811, so that the fair value of the building as of 31 December 2015 amounts to 'zero' quetzals.

At the closing of the period 2015, ONG had a vehicle with an acquisition cost of Q 30,000 which is fully paid and which is still in use.

The policy of ONG is to obtain insurance policies to cover possible risks. At the closing of the period 2015, there was not any deficit on any insurance coverage related with such risks.

7. ACCOUNT PAYABLE

As of December 31 2015 and 2014, account receivable are integrated as follows:
(Amounts in Dollars and Quetzals)

Description	2015	2014
Unearned revenue (a)	373,480	585,971
Electricity	3,032	-
General expenses provision	23,878	-
Labor provisions (14 Bonus and Christmas Bonus)	70,925	-
IGSS labor contribution	5,856	5,427
Income tax withholdings I.S.R.	2,534	2,672
Total	479,705	594,070

- (a) The balance as of December 31, 2015 corresponds to the transfer received in October 09, 2015 in the amount of Q. 372,480.00 from the donor Pepsi Co, which will be destined to cover the food and healthcare expenses of the schools named Nuestro Futuro and El Porvenir, during the period 2016.

The balance as of 12/31/2014 correspond to a grant received from the donor NDG NL (Niños de Guatemala Netherlands) in the amount of Q.1,000.00 to be used during the first quarter of the year 2015, which have not yet been authorized for its application to the budget, consequently it is outstanding to be charged at the statement of income and disbursements. That is the reason why at the moment this grant is received at the bank account in Guatemala, ONG records it as an account payable which is subsequently being regularized monthly with the applications authorized to the Budget.

8. EQUITY

As of December 31 2015 and 2014, account receivable are integrated as follows: (Amounts Quetzals)

Description	2015	2014
Reserves for capitalization of fixed assets	1,877,427	
Retained earnings	215,147	313,998
Net profit (loss)	383,230	(98,852)
Total	2,475,804	313,998

Decree 2-2003 from the Congress of Guatemala regarding the Law of Non-Governmental Organizations for development did not establish minimum requirements for initial contributions at the time of the organization's constitution. Therefore, the

deed of constitution of NDG GT does not include amounts relating to the initial contribution of equity. At year-end 2015, the Social Equity of the ONG correspond to the excess of revenues over expenses or remnants of donations unliquidated from its constitution until the present as well as reserves for capitalization of fixed assets in the year 2015.

9. INCOME

ONG Niños de Guatemala receives funding from different sources, such are the following. (Amounts Quetzals)

Description	2015	2014
Donation Program NDG NL (See Note 9.1)	1,603,298	1,166,508
Sponsorship Program (See Note 9.2)	976,311	1,182,315
GT Donations (See Note 9.3)	2,394,485	1,136,711
Other Income (See Note 9.4)	209,632	102,240
Total	5,183,726	3,587,774

9.1 NDGNL-Holanda

ONG Niños de Guatemala has not a cooperation agreement signed with NDGNL - The Netherlands, however, the grants received from such donor are destined to cover the needs of the Association, especially in the educational centers. During the period subject to our review, the transfers received amount to Q. 1,603,298.00.

9.2 Sponsorship program

Those are contributions received both from natural persons and legal entities, identified with the objectives of ONG by sponsoring of any of the educational centers. During the period subject to our review, the transfers received amount to Q. 976,311.00. It is important to mention that there is not any agreement or contract signed with the sponsors.

9.3 GT Donations

Those are grants managed by personnel from The Netherlands located at Guatemala. It is important to mention that this income have not a contract neither a cooperation agreement. During the period subject to our review, income was received in the amount of Q. 2,394,485, distributed as follows: (Amounts Quetzals)

Description	2015	2014
General and Corporate Donations	1,901,565	783,996
Volunteer Program	18,288	22,377
BFB Donations	421,612	271,725
Online Campaign	-	2,215
Events	23,833	31,816
Other income	29,187	24,582
TOTAL	2,394,485	1,136,711

9.4 Other income

In this account entity records income receive from volunteer contributions of the parents at the schools, from grants derived from activities or events performed by the Association, or grants from people who are identified with the entity's objective. During the period subject to our review, entity received income in the amount of Q. 209,632.00 distributed as follows: (Amounts Quetzals)

Description	2015	2014
Tours and events	80,469	11,015
Direct income in schools	95,237	88,052
Other	33,926	3,173
Total	209,632	102,240

10. TAX AREA

ONG Niños de Guatemala is registered with the Superintendencia de Administración Tributaria (SAT), under the Tax Identification Number (NIT) 5913775-4. Issued Resolution No. SAT-GRC-DRG-OTG-ATGP-ART R-2011-03-01-000807 for the ONG, regarding the tax exemption, stipulating the following:

- a) The ONG declares the exemption from value added tax, contributions, grants, membership payments and periodic installments. In addition, it needs to declare for the provision of social and educational services provided they are not intended to profit.
- b) The ONG declares the exemption from income tax for income received from donations and regular and special contributions.
- c) As a nonprofit entity, the ONG declares exemption from Solidarity tax.

d) The ONG declares exemption from Stamp Duty and Special Stamped Paper Protocols for documents containing taxable acts or contracts.

However, the ONG must meet the following legal provisions:

11. ACCOUNTING ASPECTS

Descripción		Cumple	No cumple
✓	To be registered with the Superintendencia de Administración Tributaria (SAT).	X	
✓	Submit an annual income tax affidavit within 90 calendar days after the accounting closing date.	X	
✓	To submit a monthly statement of value added tax within the calendar month following the expiration of each tax period.	X	
✓	Carry ledgers duly authorized by the Superintendencia de Administración Tributaria (SAT).	X	
✓	Retain 5% - 7% of income tax for purchases and services where appropriate, by decree 10-2012	X	
✓	f) To issue special invoices when there is no legal documentation and retain 5% and 7% for purchases of goods and / or services, according to decree 10-2012	X	
✓	To withhold the corresponding income tax to all employees when their annual income exceeds Q 48,000.00.	X	

ONG Niños de Guatemala, provided us for our work, the legal accounting books (journal entries, general ledger and balance sheet); it uses the accounting system named Quick Books to record its financial activities.

For tax purposes, the accounting records of the entity are carried out by an external firm.

12. TAX REVIEW

At the date of our review ONG Niños de Guatemala has not been reviewed by the tax authorities of the country. The right of the authorities to run adjustments to the different taxes to which it is obliged, prescribes four years after the deadline fixed for the presentation of the corresponding tax returns

13. SUBSEQUENT EVENTS

We do not know about any change subsequent to our review, to the financial statements of ONG Niños de Guatemala, that may affect the amounts stated in the entity's financial statements.

14. OTHER INFORMATION

In accordance with Article 11 of the Regulation of the Law against Money Laundering, as of December 31, 2015, the ONG was not aware of any unusual and/or suspicious transaction.

On December 9, 2015, ONG Niños de Guatemala received notification of the Superintendence of Banks, through the Special Verification Administration (IVE), regarding compliance with its obligations under the regulation against money laundering and to prevent and suppress the financing of terrorism. The notification stated that the ONG is not in compliance with the following:

- a) Presentation of identification of some Board members. In addition, the appointment of members designated as president and vice president were expired.
- b) Appointment of compliance officer (and alternate).
- c) Presentation of the compliance program.
- d) Presentation of certain electronic reports.

All the aforementioned have been resolved after the end of the year, during January 2016.

ANNEX

Description	Annex	Page
- Detail of Institutional disbursements	(A)	2-2

ONG NIÑOS DE GUATEMALA

ANNEX A

INTEGRATION OF DISBURSEMENTS

From January 01 through December 31, 2015 and 2014

(Amounts Quetzals)

Description of accounts	2015		2014	
	Amount	%	Monto	%
EMPLOYEE SPENDING				
Regular salary	1,501,762	31%	1,104,419	30%
Incentive bonus	118,642	2%	89,125	2%
Employment benefits	515,117	11%	303,662	8%
Sub-total	2,135,521	44%	1,497,206	41%
OFFICE COST				
Rent Office	17,465	0%		0%
Electricity	30,570	1%	25,951	1%
Telecommunication	39,060	1%	28,031	1%
Office Supplies	47,653	1%	44,743	1%
Furniture & Equipment	-	0%	100,257	3%
Accounting	59,572	1%	12,000	0%
Propan Gas	8,236	0%	12,565	0%
Office Services	8,252	0%	1,917	0%
Consulting	127,053	3%	230,498	6%
Legal Costs	9,465	0%	-	0%
Maintenance	13,518	0%	-	0%
Other	-		5,279	
Sub-total	360,844	8%	461,241	13%
INFRASTRUCTURE				
Maintenance	53,399	1%	34,890	1%
Construction Cost	227	0%	779,320	21%
Building costs		0%	32,745	1%
Sub-total	53,626	1%	846,955	23%
TRANSPORTATION				
Fuel for Car	2,760	0%	4,480	0%
Car Maintenance	1,906	0%	4,451	0%
Car Insurance	3,491	0%	3,812	0%
Bus Tickets	10	0%	11	0%
Incidental Cost	560	0%	294	0%
Flete	15	0%	-	0%
Sub-total	8,742	0%	13,048	0%
TRAINING & DEVELOPMENT				
Activities	4,489	0%	-	0%
Convivio	10,440	0%	8,397	0%
Organizational Budget	144	0%	18,124	0%
Sub-total	15,073	0%	26,521	1%
Van	2,573,806		2,844,971	

ONG NIÑOS DE GUATEMALA

ANNEX A

INTEGRATION OF DISBURSEMENTS

From January 01 through December 31, 2015 and 2014

(Amounts Quetzals)

Description of accounts	2015		2014	
	Amount	%	Monto	%
Vienen	2,573,806	54%	2,844,971	77%
FOOD				
Food	382,367	8%	316,967	9%
Drinking Water	4,679	0%	-	0%
Health	33,171	1%	24,830	1%
Sub-total	420,217	9%	341,797	9%
EDUCATIVE MATERIALS				
Materials Children	158,341	3%	297,787	8%
Materials Teacher	49,970	1%	36,828	1%
Rincones de Aprendizaje	13,645	0%	14,338	0%
Community Center	2,485	0%	-	0%
Psychology & Social Work	4,986	0%	11,245	0%
Capacity Building	31,539	1%	15,598	0%
Crianza con cariño (CCC)	3,794	0%	1,646	0%
Teachers substitutas	7,529	0%	5,441	0%
Transportation	427	0%	1,882	0%
English Program	6,940	0%	8,838	0%
Aflatoun	33,166	1%	28,547	1%
Other	-	0%	3,566	0%
Social Work (T.S.)	4,608	0%	-	0%
Sub-total	317,430	7%	425,716	12%
PROMOTIONAL EXPENSES				
Printing	551	0%	1,487	0%
Events	12,086	0%	1,562	0%
Representation Cost	12,933	0%	734	0%
Promotional Cost	7,786	0%	2,478	0%
Other	-	0%	88	0%
Sub-total	33,356	1%	6,349	0%
FINANCIAL EXPENSES				
Exchange Rate Differences	21,038	0%	66,973	2%
Banking Expenses	405	0%	400	0%
Other	646	0%	420	0%
Sub-total	22,089	0%	67,793	2%
OTHER				
Other	9	0%	-	0%
Sub-total	9	0%	-	0%
VARIATION VALUES				
VARIATION VALUES	32,000	1%	-	0%
Sub-total	32,000	1%	-	0%
PURCHASE OF ASSETS				
Purchase of assets	1,402,526	29%	-	0%
Sub-total	1,402,526	29%	-	0%
Total disbursements	4,801,433	100%	3,686,626	138%