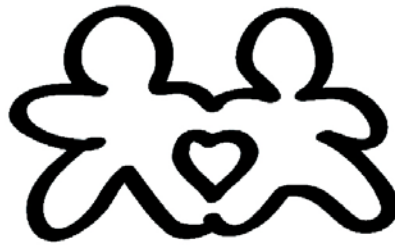


# NGO NIÑOS DE GUATEMALA

Annual report corresponding to the fiscal year ending  
December 31<sup>st</sup>, 2017



*Niños de Guatemala*

**NGO Niños de Guatemala**  
Balance sheet for the year ended 31/12/2017

<b>ASSETS</b>	<b>Notes</b>	<b>31/12/2017</b>	<b>31/12/2016</b>	<b>LIABILITIES AND SOCIAL EQUITY</b>	<b>Notes</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
Current Assets							
Petty cash and banks	Note 5	202,762	235,890	Current liabilities			
Accounts receivable	Note 6	8,230	13,082	Short-term deferrals	Note 9	82,836	84,497
<b>Total current assets</b>		<b>210,992</b>	<b>248,972</b>	Accounts payable	Note 9	298,598	224,097
Non-current assets				Short-term provisions	Note 9	1,407	1,525
Furniture and equipment				<b>Total current liabilities</b>		<b>382,841</b>	<b>310,119</b>
Furniture and equipment - cost				Social equity			
Furniture and equipment - amortization				Reserves for capitalization of fixed assets	Note 10	1,940,619	1,973,731
Total furniture and equipment	Note 7	684,500 (477,939)	621,319 (381,647)	Retained earnings	Note 10	(61,148)	514,136
Land and buildings				Net (loss) income	Note 10	(110,701)	(575,284)
Land				<b>Total social equity</b>		<b>1,768,770</b>	<b>1,912,583</b>
Buildings							
Construction in progress							
Impairment losses							
Total land and buildings	Note 7	1,734,058 6,204,222 (6,204,222)	1,734,058 6,159,455 (6,159,455)				
<b>Total non-current assets</b>		<b>1,940,619</b>	<b>1,973,730</b>				
<b>TOTAL ASSETS</b>		<b>2,151,611</b>	<b>2,222,702</b>	<b>TOTAL LIABILITIES AND SOCIAL EQUITY</b>		<b>2,151,611</b>	<b>2,222,702</b>

**NGO Niños de Guatemala**  
**Profit and Loss statement**  
**for the year ended 31/12/2017**

	Note	2017	2016
<b>Income</b>			
Donation program NDG NL		557,699	1,453,417
Sponsorship program		1,303,250	1,242,633
GT donations		953,085	1,510,905
Social Business		437,914	-
Other income		786,288	193,225
Total income	Note 12	<b>4,038,236</b>	<b>4,400,180</b>
Stock variation of in-kind donations	Note 13	<b>(534,512)</b>	<b>(27,848)</b>
<b>Salaries and benefits</b>			
Base salary		(1,738,577)	(1,707,481)
Incentive bonus		(136,991)	(147,708)
Other benefits		(511,067)	(504,207)
Total salaries and benefits	Note 13	<b>(2,386,635)</b>	<b>(2,359,396)</b>
<b>Other operating expenses</b>			
Office expenses		(367,742)	(507,346)
Infrastructure and maintenance		(105,623)	(1,072,613)
Transport		(21,918)	(15,052)
Training and development		(17,778)	(19,948)
Food and health		(327,972)	(549,095)
Educative materials		(274,362)	(361,578)
Promotional expenses		(112,440)	(64,033)
Other		-	-
Total other operating expenses	Note 13	<b>(1,227,835)</b>	<b>(2,589,665)</b>
<b>OPERATING MARGIN</b>		<b>(110,746)</b>	<b>(576,729)</b>
Financial income	Note 14	239	1,997
Financial expenses	Note 14	(194)	(552)
<b>FINANCIAL MARGIN</b>		<b>45</b>	<b>1,445</b>
<b>NET LOSS</b>		<b>(110,701)</b>	<b>(575,284)</b>

**NGO Niños de Guatemala**  
**Changes in social equity for the year ended 31/12/2017**

	Capital	Reserves for capitalization of fixed assets	Retained earnings	Net income (loss)	Total social equity
<b>BALANCE AT THE END OF 2016</b>	-	<b>1,973,731</b>	<b>514,136</b>	<b>(575,284)</b>	<b>1,912,583</b>
Adjustments	-	-	-	-	-
<b>ADJUSTED BALANCE, BEGINNING OF 2017</b>	-	<b>1,973,731</b>	<b>514,136</b>	<b>(575,284)</b>	<b>1,912,583</b>
Total recognized income and expenses	-	-	(575,284)	464,583	<b>(110,701)</b>
Capitalization of fixed assets	-	(33,112)	-	-	<b>(33,112)</b>
Other variations in equity	-	-	-	-	-
<b>BALANCE, YEAR END 2017</b>	-	<b>1,940,619</b>	<b>(61,148)</b>	<b>(110,701)</b>	<b>1,768,770</b>

**NGO Niños de Guatemala**  
Cash flow statement for the year ended 31/12/2017

	Notes	2017	2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net loss		(110,701)	(575,284)
Adjustments to net loss			
Impairment losses	Note 7	-	-
Changes in current assets and liabilities			
Accounts receivable	Note 6	4,851	773
Short-term deferrals	Note 9	(1,661)	13,572
Accounts payable	Note 9	74,501	(160,805)
Short-term provisions	Note 9	(118)	(22,353)
<b>Cash flow from operating activities</b>		<b>77,573</b>	<b>(168,813)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Cash outflow s from investments			
Fixed assets	Note 7	-	-
<b>Cash flow from investing activities</b>		-	-
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(33,128)</b>	<b>(744,097)</b>
Cash and cash equivalents at the beginning of the year	Note 5	235,890	979,987
Cash and cash equivalents at the end of the year	Note 5	202,762	235,890

# NGO NIÑOS DE GUATEMALA

## Notes to the accompanying financial statements as of December 31<sup>st</sup>, 2017

### **1. – Activities**

The NGO Niños de Guatemala (NGO / NDG) was formed on 10th August 2007 according to the Notary Act 83 submitted by the lawyer and notary José Luis González. NDG was registered as a Civil Association in Guatemala and as a private, non-profit, apolitical, non-partisan private entity for social, cultural and educational development for the benefit of children and young people formed under the Non - Governmental Organization category.

The social objective of the NGO, in line with its statutes, is to promote and develop actions for the benefit of girls, boys and teenagers who come from low economic backgrounds in order to improve their quality of life and fulfill wherever possible, the basic needs for education, shelter, nutrition and environment. This objective is striven for through the following activities:

- Creation, functioning, buying and selling, reinforcement or obtaining through any legal method through schools and colleges, educational reinforcement at pre-primary, primary, secondary, diversified or course level in the area of education.
- Creation and functioning of learning and training centres in technical, artistic, cultural and scientific areas.
- Creation and running of vocational workshops
- The running of typing, computing, internet and other electronic communication academies.
- The establishment of day-care for girls and boys.
- To provide psychological, medical and nutritional assistance for girls, boys and teenagers who take part in our programmes and vocational workshops.
- To manage the acquisition of resources and national and international financing in order to achieve the organization`s aims and objectives
- To provide support to the community in the areas of education, health, environment and society.
- To provide any other related or similar support to the aforementioned that benefits stakeholders and the community and that contributes to the achievement of the organization`s aims and objectives.

The NGO's location and base is located on 4<sup>a</sup> calle #28, in the municipality of Antigua Guatemala, Department of Sacatepéquez. It carries out its activities also in the department of Sacatepéquez.

The operating currency of the NGO is the Guatemalan Quetzal. The financial statements are in Quetzals, the official currency of Republic of Guatemala. Transactions in currencies other than the operating currency that impact the balance sheet and profit and loss statement, are accounted for using the exchange rate at the end of the year, and the average exchange rate of the year, respectively.

At year-end 2017, the only balance in currency other than the operating currency corresponds to the monetary bank account in Banco Industrial, nominated in U.S. dollars (see Note 5).

### **2. – Presentation basis**

#### ***2.1 Normative framework of financial information applicable to the NGO***

These Annual Accounts were formulated by the Board of Directors according to the normative framework of financial information applicable to the NGO 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.

#### ***2.2 Fair presentation***

These Annual Accounts have been created from the NGO's accounting records and are presented according to the normative framework of financial information applicable to the NGO. In particular, it is presented according to generally accepted accounting 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 results of the NGO during the corresponding financial year.

### ***2.3 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.

### ***2.4 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 7)
- The useful life of fixed assets (see Note 7)

Despite these estimates, which were based on the best available information at the end of 2017, 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.

The NGO capitalize its fixed assets in the Balance Sheet (see note 7). With regard to the valuation of buildings, due to their unique structure and use as schools, the NGO 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 NGO 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 NGO considers the fair value of the buildings to be close to zero and thus recognizes a 100% impairment.

### ***2.5 Information comparison***

The 2016 information included in this report is presented to be compared to the information from the 2017.

### ***2.6 Grouping items***

Certain items in the balance sheet, the profit and loss statement, the changes in equity and cash flow statement are in grouped form to facilitate understanding. However, as far as possible, disaggregated information has been included in the notes to the annual report.

### ***2.7 Changes in accounting principles***

During fiscal year 2017 there were no significant changes in the accounting principles with respect to criteria applied in fiscal year 2016.

### ***2.8 Correction of errors***

In the preparation of the accompanying Annual Accounts, no significant error has been detected that resulted in the re-expression of the balances included in the Annual Account for the fiscal year 2016.

## **3. – Distribution of net losses**

The proposed distribution of the net losses to retained earnings, amounting to 110,701 quetzals, will be submitted for approval to the Board.

## **4. – Valuation and Accounting Policies**

The main valuation and accounting policies used by the NGO to prepare their financial statements for 2017 were the following:

#### 4.1 Fixed assets

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.

The NGO depreciates fixed assets following the linear method at annual rates established by the law of income tax in Guatemala calculated based on the estimated useful lives of the assets as follows:

*Method according to the Depreciation Percentage:*

	Depreciation Percentage
Buildings, constructions and facilities attached to buildings and improvements	5.00%
Furniture and Office Equipment	20.00%
Vehicles	20.00%
Computing Equipment	33.33%
Tools, china, glassware, linens, etc.	25.00%
Other goods not indicated in the preceding paragraphs	10.00%

#### 4.2 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 NGO 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.

#### 4.3 Financial Instruments

##### I. Financial Assets

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

- a) Receivables: prepaid expenses, advances to employees and donations receivables. They are financial assets that do not have commercial substance nor are equity instruments nor derivatives. The receivable amount is 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 an amortized cost.

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

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

The NGO derecognizes financial assets when they expire or when the rights over cash flows of an asset have been cede and the risks 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 NGO derecognize financial liabilities when the obligations have been fulfilled and finished.

#### ***4.4 Transactions in foreign currency***

The NGO'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.

#### ***4.5 Income and Expenses***

The NGO prepares its financial statements on an accrual basis. Income and expenses are recognized and recorded when incurred, regardless of the moment the monetary or financial flow.

Revenues from donations are valued at the fair value of the amount or asset received, depending on whether they are monetary in nature or not.

#### ***4.6 Provisions and Contingencies***

In the formulation of the Annual Accounts, the NGO 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 NGO.

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.

Contingent liabilities are not recognized in the Annual Accounts, but are reported in the notes to the financial statements, to the extent that they are not considered as remote.

#### ***4.7 Severance***

According to current legislation, the NGO 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.

#### ***4.8 Current and non-current items***

Current assets are considered those linked to the normal operating cycle that generally is considered as a year. Also, those assets whose maturity, disposal or realization is expected to occur in the short term from the date of year-end, as well as cash and cash equivalents. Assets that do not meet these requirements are classified as non-current.

Similarly, current liabilities are linked to the normal operating cycle in addition to financial liabilities held for trading with the exception of financial derivatives whose settlement period exceeds a year. Generally all obligations whose expiration or termination will occur in the short term. Otherwise, they are classified as non-current.

### **5. - Petty Cash and Banks**

The NGO has the following balances at year-end 2017 and 2016 (in quetzals):

	<b>2017</b>	<b>2016</b>
<b>Petty Cash</b>		
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	1,500
<b>Total Petty Cash</b>	<b>14,500</b>	<b>14,500</b>
<b>Banco Industrial</b>		
NGO Main Account (monetary deposit)	2,839	13,999
Nuestro Futuro (monetary deposit)	897	12,007
El Provenir (monetary deposit)	3,552	19,993
Basico (monetary deposit)	904	1,543
Construction account (monetary deposit)	1,000	2,700
Group account (monetary deposit)	34,684	1,000
Institutional Savings Account	125,982	162,874
Account in USD	18,404	7,274
<b>Total Banco Industrial</b>	<b>188,262</b>	<b>221,390</b>
<b>Total Petty Cash and Banks</b>	<b>202,762</b>	<b>235,890</b>

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

*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 NGO are:

*a) Credit risk:*

In general, the NGO 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 31/12/2017 are donations receivables and prepaid expenses for amounts that do not represent a significant concentration of credit risk with third parties (see Note 6).

*b) Liquidity risk:*

In order to ensure liquidity and meet all payment obligations, the NGO has the cash shown in its balance sheet as well as the various sources of income as detailed in Note 12.

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

The NGO 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 NGO. 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 NGO does not maintain accounts receivable in foreign currencies.

**6. - Accounts receivable**

Balances as of December 31, 2017 and 2016 are comprised as follows (in Quetzals):

Description	2017	2016
Donations receivables	-	-
Prepaid expenses	8,230	5,942
Advances to employees	-	7,140
<b>Total</b>	<b>8,230</b>	<b>13,082</b>

## **7. - Fixed assets**

The changes in fixed assets in 2017 and 2016 as well as the most significant information affecting them are as follows (in quetzals):

### 2017

Cost	1/1/2017	Additions	Withdrawals, cancellations or reductions	31/12/2017
<b>Furniture and Equipment</b>				
Furniture and office equipment	316,696	13,242	-	329,938
Computer equipment	174,887	49,939	-	224,826
Tools, dishes, silverware and similar.	59,913	-	-	59,913
Vehicles	30,000	-	-	30,000
Others	39,823	-	-	39,823
<b>Total Furniture and Equipment</b>	<b>621,319</b>	<b>63,180</b>	-	<b>621,319</b>
<b>Land and Buildings</b>				
Land	1,734,058	-	-	1,734,058
Buildings	6,159,455	44,767	-	6,204,222
Construction in progress	-	-	-	-
<b>Total Land and Buildings</b>	<b>7,893,513</b>	<b>44,767</b>	-	<b>7,938,280</b>
<b>Total cost</b>	<b>8,514,832</b>	<b>107,947</b>	-	<b>8,622,780</b>

Depreciation and Impairment	1/1/2016	Endowment charged to reserves	Withdrawals, cancellations or reductions	31/12/2016
<b>Furniture and Equipment</b>				
Furniture and office equipment	(181,146)	(45,796)	-	(226,942)
Computer equipment	(113,998)	(39,783)	-	(153,781)
Tools, dishes, silverware and similar.	(41,044)	(7,349)	-	(48,393)
Vehicles	(30,000)	-	-	(30,000)
Others	(15,459)	(3,364)	-	(18,823)
<b>Total Furniture and Equipment</b>	<b>(381,647)</b>	<b>(96,292)</b>	<b>-</b>	<b>(477,939)</b>
<b>Land and Buildings</b>				
Land	-	-	-	-
Buildings	-	-	-	-
Construction in progress	-	-	-	-
<b>Total Land and Buildings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total depreciation</b>	<b>(381,647)</b>	<b>(96,292)</b>	<b>-</b>	<b>(477,939)</b>
<b>Impairment</b>				
<b>Land and Buildings</b>				
Land	-	-	-	-
Buildings	(6,159,455)	(44,767)	-	(6,204,222)
Construction in progress	-	-	-	-
<b>Total Land and Buildings</b>	<b>(6,159,455)</b>	<b>(44,767)</b>	<b>-</b>	<b>(6,204,222)</b>
<b>Total impairment</b>	<b>(6,159,455)</b>	<b>(44,767)</b>	<b>-</b>	<b>(6,204,222)</b>

Total fixed assets	1/1/2017	31/12/2017
Cost	8,514,832	8,622,780
Depreciation	(381,647)	(477,939)
Impairment	(6,159,455)	(6,204,222)
<b>Total net</b>	<b>1,973,730</b>	<b>1,940,619</b>

2016

Cost	1/1/2016	Additions	Withdrawals, cancellations or reductions	31/12/2016
<b>Furniture and Equipment</b>				
Furniture and office equipment	259,881	56,815	-	316,696
Computer equipment	106,976	67,911	-	174,887
Tools, dishes, silverware and similar.	49,117	10,797	-	59,913
Vehicles	30,000	-	-	30,000
Others	33,640	6,183	-	39,823
<b>Total Furniture and Equipment</b>	<b>479,614</b>	<b>141,706</b>	<b>-</b>	<b>621,319</b>
<b>Land and Buildings</b>				
Land	1,734,058	-	-	1,734,058
Buildings	5,142,934	1,016,521	-	6,159,455
Construction in progress	-	1,016,521	(1,016,521)	-
<b>Total Land and Buildings</b>	<b>6,876,992</b>	<b>2,033,042</b>	<b>(1,016,521)</b>	<b>7,893,513</b>
<b>Total cost</b>	<b>7,356,606</b>	<b>2,174,748</b>	<b>(1,016,521)</b>	<b>8,514,832</b>

<b>Depreciation and Impairment</b>	<b>1/1/2016</b>	<b>Endowments charged to reserves</b>	<b>Withdrawals, cancellations or reductions</b>	<b>31/12/2016</b>
<b>Furniture and Equipment</b>				
Furniture and office equipment	(119,799)	(61,347)	-	(181,146)
Computer equipment	(65,075)	(48,923)	-	(113,998)
Tools, dishes, silverware and similar.	(31,228)	(9,816)	-	(41,044)
Vehicles	(30,000)	-	-	(30,000)
Others	(5,903)	(9,556)	-	(15,459)
<b>Total Furniture and Equipment</b>	<b>(252,005)</b>	<b>(129,642)</b>	<b>-</b>	<b>(381,647)</b>
<b>Land and Buildings</b>				
Land	-	-	-	-
Buildings	-	-	-	-
Construction in progress	-	-	-	-
<b>Total Land and Buildings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total depreciation</b>	<b>(252,005)</b>	<b>(129,642)</b>	<b>-</b>	<b>(381,647)</b>
<b>Impairment</b>				
<b>Land and Buildings</b>				
Land	-	-	-	-
Buildings	(5,142,934)	(1,016,521)	-	(6,159,455)
Construction in progress	-	-	-	-
<b>Total Land and Buildings</b>	<b>(5,142,934)</b>	<b>(1,016,521)</b>	<b>-</b>	<b>(6,159,455)</b>
<b>Total impairment</b>	<b>(5,142,934)</b>	<b>(1,016,521)</b>	<b>-</b>	<b>(6,159,455)</b>

<b>Total fixed assets</b>	<b>Initial balance</b>	<b>Ending balance</b>
Cost	7,356,606	8,514,832
Depreciation	(252,005)	(381,647)
Impairment	(5,142,934)	(6,159,455)
<b>Total Net</b>	<b>1,961,667</b>	<b>1,973,730</b>

The NGO capitalize its fixed assets in the Balance Sheet. Regarding the valuation of buildings, due to their specific use as schools, the NGO 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 NGO 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 NGO 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 Q6,204,222 and Q 6,159,455 during the year 2017 and 2016, respectively.

During 2017, the NGO built a water tank at the school El Porvenir and the construction cost amounted to Q44,767. In 2016, the construction of the second level of Basico was completed, with a construction cost of Q 1,016,521. Similarly, as stated in the previous paragraph, the NGO has recognized an impairment of the value of total construction cost during the year 2017 and 2016, amounting to Q44,767 and Q1,016,521, respectively, so that the fair value of the building as of the year-end 2017 and 2016 amounts to 'zero' quetzals.

At year-end 2017 and 2016, the NGO had a vehicle that is fully depreciated and continues to be in use.

The NGO policy is to formalize insurance policies to cover possible risks to its fixed assets. At year-end 2017 and 2016, the NGO is fully insured against these risks.

## **8. - Leases**

At year-end 2017 and 2016 the NGO had the following minimum lease payments in accordance with the current contracts without taking into account the charging of common expenses, future increases or future contractual lease payment updates (in quetzals):

<b>Operating leases Minimum quotas</b>	<b>Nominal Value</b>	
	<b>2017</b>	<b>2016</b>
Less than 1 year	48,797	44,361
Between 1-5 years	106,509	129,370
More tan 5 years	-	-
<b>Total</b>	<b>155,306</b>	<b>173,731</b>

In its position as tenant, the sole operating lease of the NGO at year-end 2017 and 2016 is for its offices where the NGO operates located in Antigua, Sacatepéquez. The lease began on August 1, 2015 and is for a duration of 5 years. Starting January 1<sup>st</sup>, 2017, the language school Cambio NDG, a social business contributing financially with the NGO and that shares the office space in Antigua, fully paid the rent of the office space. As a result, the total rent paid by the NGO during 2017 and 2016 amounted to Q 0 and Q 41,916, respectively. The contract has an annual increase of 10% from the third year.

## **9. - Current liabilities**

### ***9.1 Short-term deferrals***

This balance at year-end 2017 and 2016 includes the deferral of employee benefits Aguinaldo and Bono 14 (See Note 13.1)

### ***9.2 Accounts payable***

At year-end 2017 and 2016, the NGO held the following balances for Accounts Payable (in Quetzals):

<b>Description</b>	<b>2017</b>	<b>2016</b>
Accounts payable	-	78
Unearned revenue (a)	292,685	216,349
IGSS labor contribution	3,432	3,812
Income tax withholdings	2,481	3,858
<b>Total</b>	<b>224,097</b>	<b>224,097</b>

- (a) The unearned revenue as of 31/12/2017 correspond to the donation received from the donor Stitcing Niños de Guatemala (NDG NL) and Friends of Niños de Guatemala (FNDG or NDG USA) corresponding with the quarterly applications of funds for 2018 which have not yet been authorized in budget applications and therefore are yet to be applied in the profit and loss statement. For this reason, when received in the bank accounts in Guatemala, they are recorded as accounts payable and they are subsequently regularized by the application duly approved.

The unearned revenue as of 31/12/2016 correspond, mainly, to the donation received from the donor Friends of Niños de Guatemala (FNDG or NDG USA) corresponding with the quarterly applications of funds for 2017.

### ***9.3 Short-term provisions***

This balance correspond with the provision for general expenses at year-end.

## **10. - Social Equity**

The balance as of December 31, 2017 and 2016 is as follows (in Quetzals):

<b>Description</b>	<b>2017</b>	<b>2016</b>
Reserves for capitalization of fixed assets	1,940,619	1,973,731
Retained earnings	(61,148)	514,136
Net income (loss)	(110,701)	(575,284)
<b>Total</b>	<b>1,768,770</b>	<b>1,912,583</b>

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 2017 and 2016, the Social Equity of the NGO 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 (as described in note 7).

## **11. - Fiscal Situation**

NGO Niños de Guatemala is registered with the Superintendence of Tax Administration (SAT) under the tax identification number (NIT) 5913775-4. The SAT issued Resolution No. SAT-GRC-DRG-OTG-ATGP-ART R-2011-03-01-000807 for the NGO regarding tax exemption, stating the following:

- a) The NGO 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 NGO declares the exemption from income tax for income received from donations and regular and special contributions.
- c) As a nonprofit entity, the NGO declares exemption from Solidarity tax.
- d) The NGO declares exemption from Stamp Duty and Special Stamped Paper Protocols for documents containing taxable acts or contracts.

However, the NGO must meet the following legal provisions:

- a) To be registered with the Superintendence of Tax Administration (SAT).
- b) Submit an annual income tax affidavit within 90 calendar days after the accounting closing date.
- c) To submit a monthly statement of value added tax within the calendar month following the expiration of each tax period.
- d) Carry ledgers duly authorized by the Superintendence of Tax Administration (SAT)
- e) Retain 5% - 7% of income tax for purchases and services where appropriate, by decree 10-2012.
- 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.
- g) To withhold the corresponding income tax to all employees when they`re annual income exceeds Q 48,000.00.

As of December 31, 2017 and 2016, the NGO complies with all legal provisions described above.

### ***11.1 Fiscal years pending approval and tax audits***

At year-end 2017, the NGO was not subjected to review by the tax authorities. According to current legislation, taxes cannot be considered definitive until the tax authorities have inspected the returns filed or the limitation period of four years has elapsed. At year-end 2017, the NGO was open to inspection for the year 2014 and followings for all applicable taxes. The Board of the NGO was considered to have appropriately settled the aforementioned taxes, so that even in case of discrepancies with respect to rules` interpretation regarding tax treatment, the resulting contingent liabilities, if materialized, will not significantly affect the accompanying financial statements.

## **12. - Income**

Income received by the NGO during the years 2017 and 2016 are as follows (in Quetzals):

Description	2017	2016
Donation Program NDG NL	557,699	1,453,417
Sponsorship Program	1,303,250	1,242,633
GT Donations	953,085	1,504,606
Social Business	437,914	-
Other Income	786,288	193,225
<b>Total</b>	<b>4,038,236</b>	<b>4,393,881</b>

### ***12.1 Donations NDG NL - Netherlands***

The NGO does not have a cooperation agreement signed with NDG NL – Netherlands; however, donor contributions are intended to meet the different needs of the NGO schools.

### ***12.2 Sponsorship program***

These revenues correspond to contributions from both individual and legal persons who identify with the aims of the NGO sponsoring children in any of the schools. It is important to mention that there is not a signed agreement / contract with sponsors, and the contributions and donations are voluntary.

### ***12.3 GT Donations***

This balance includes the revenue generated by the fundraising team in Guatemala. The breakdown of this income at year-end 2017 and 2016 is as follows (amounts in Quetzals):

Description	2017	2016
General and Corporate Donations	176,725	727,683
Volunteer and groups program	195,231	95,405
Grants	-	74,282
BFB Donations	295,666	389,414
Online Campaign	42,594	41,260
Events	242,870	179,711
Other	-	3,150
<b>Total</b>	<b>953,085</b>	<b>1,510,905</b>

### ***12.4 Social Business***

This balance includes donations from the social businesses with which the NGO maintains a partnership with. During 2017, the language school Cambio NDG has donated Q59,464, Good Hotel Antigua donated Q23,580 corresponding with direct booking made through their website (\$5 per booking), and Good Property Guatemala CV donated Q354,870 corresponding to the income obtained from the lease of the hotel to Good Hotel Antigua.

### ***12.4 Other income***

This balance includes voluntary contributions from parents, other direct donations received in schools, donations from events/activities organized by the NGO and donations from people who identify with the NGO's aims. The breakdown of this income at year-end 2017 and 2016 is as follows (in Quetzals):

Other Income	2017	2016
Tours and events	138,363	75,868
Direct income in schools	97,663	89,508
In kind donations (a)	549,632	27,848
Other	630	-
<b>Total</b>	<b>786,289</b>	<b>193,225</b>



(a) During 2017 the NGO received the following in kind donations:

- Shampoo and detergent, amounted to Q473,104, by Unilever Guatemala
- 16 computers donated by CEMACO and Funsepa, total of Q45,000
- 210 bags of cement utilized in the construction of water tank at EP, amounted to Q15,347, donated by Cementos Progreso through Fundación Carlos Novela
- 95 bales of toilet paper, kitchen paper and wet towels, total Q14,083 donated by Kimberly Clark Guatemala.
- Corn flakes and oat meal for the food program, total Q1,598, donated by Alimentos Quacker.
- **Pies and cakes for the celebration of "day of the child", donated by Pastelerias Holandesa, S.A. for a total value of Q500**

### **13. - Operating expenses**

The breakdown of the operating expenses incurred by the NGO during the years 2017 and 2016 is as follows (in Quetzals):

	2017	2016
Stock variation of in-kind donations	534,512	27,848
Salaries and benefits	2,386,635	2,359,396
Other operating expenses	1,227,835	2,589,665
<b>Total</b>	<b>4,148,982</b>	<b>4,976,909</b>

#### ***13.1 Salaries and benefits***

The average number of employees during 2017 and 2016, detailed by category, is as follows:

Categorías	2017	2016
Management	3	3
Technical staff and middle management	8	11
Administrative staff	3	4
Teachers	27	23
Cleaning and kitchen staff	3	5
<b>Total</b>	<b>44</b>	<b>46</b>

The gender distribution at year-end 2017 and 2016 detailed by category is as follows:

Categorías	2017		2016	
	Men	Women	Men	Women
Management	1	2	-	2
Technical staff and middle management	-	8	-	11
Administrative staff	-	3	-	4
Teachers	9	18	9	17
Cleaning and kitchen staff	-	3	-	5
<b>Total</b>	<b>10</b>	<b>34</b>	<b>9</b>	<b>39</b>

NGO Niños de Guatemala is obliged, according to the laws of Guatemala, to pay their staff for the following items:

- a) Aguinaldo: according to the decree 76-78 of the Congress of Guatemala, every employer is obliged to annually pay their workers a bonus equivalent to 100% of a regular monthly salary earned from a year of continuous work or prorated. The bonus must be paid 50% in the first half of December and the remaining 50% in the second half of January the following year. The NGO's policy is to pay 100% of this benefit in the month of December each year. The NGO recorded the deferral for this benefit at year end 2017 and 2016 (See Note 9).

- b) Severance: according to Article 82 of the Labor Code, Decree 1441, Article 9 of the Law Regulating Aguinaldo, Decree 76-78 and Article 4 of the Annual Bonus Law to be paid to all employees working for both private and public sector, Decree 42-92, compensation should be calculated using the average base salary for the last 6 months adding a twelfth of the Aguinaldo and bono 14, this calculation applies for year worked. The employer is only obliged to pay for this in case of unfair dismissal.

The NGO does not accrue for this expense. Therefore, it is recorded as an expense when the obligation of payment arise. During 2017 and 2016, the NGO paid Q 23,138.20 and Q 39,709.95 as a severance, respectively.

- c) Bono 14: Decree 42-92 of the Congress of Guatemala established that for obligatory work performed for every employer, workers should be paid the equivalent to a salary or ordinary wage earned by the worker in an annual bonus month.

NGO Niños de Guatemala pays this benefit according to the above as a single payment in the month of July. This benefit is additional and independent of the Aguinaldo. The NGO recorded the deferral for this benefit at year end 2017 and 2016 (See Note 9).

- d) Holidays: according to the Labor Code Decree 14-41 issued by the Congress of Guatemala, in Article 130, every worker is entitled to a minimum period of 15 days of vacation after a year of continuous work for the same employer. Such a period will be effective within sixty days of the year of service completed.

As an institutional policy, the NGO grants 15 days of annual leave to all employees, or prorated if having worked less than a year. This benefit is granted according to the Labor Code or by agreement between the worker and the company.

- e) Incentive bonus: Decree No.78-89 amended by Decree No.37-2001 issued by the Congress of Guatemala establishes mandatory payment to all workers in the private sector, whatever the activity performed, to an equivalent Q.250.00 incentive bonus payable monthly. The entity complies with the requirements in the law.

- f) Guatemalan Social Security Institute (IGSS): agreements 1118 and 1123 issued by the Board of the Guatemalan Social Security Institute (IGSS), in exercise of its powers conferred by Article 183 paragraph e) of the Constitution of the Republic of Guatemala and article 19 paragraph a) of the Organic Law of IGSS, indicate that: every employer, individual or legal person employing three or more employees, is obliged to register with the Social Security Scheme and is obliged to deduct from full wages earned by workers, the percentage corresponding to the employees contribution, as well as to pay its employer's contribution as follows:

Description	%
Employer's contribution (paid monthly by the employer)	10.67
Employee's labor contribution (deducted monthly)	4.83
<b>Total</b>	<b>15.50</b>

The NGO is dully registered with the Guatemalan Social Security Institute (IGSS) and applies to all employees the corresponding deduction.

- g) INTECAP: the Technical Institute of Training and Productivity (INTECAP) was created by means of Decree 17-72 issued by the Congress of Guatemala, with the aim of strengthening the training of human resources and increasing productivity in all fields of economic activities, providing various development programs for workers, as set out in Article 6 of the Decree.

This benefit granted to workers is not mandatory for the employer, and the payment is calculated on the base salary of each worker and adds 1% to the employer's contribution paid to the IGSS.

The NGO does not grant the benefit to their employees.

- h) IRTRA: The Institute of Recreation of Workers (IRTRA) was created by Decree 1528 issued by the Congress of Guatemala, in order to organize the recreation and leisure activities of workers so that they fully develop their personality and make better use of their free time. This benefit granted to workers is not mandatory for the employer and payment is calculated on the base salary of each worker and adds 1% to the employer's contribution paid to the IGSS.

The NGO does not grant the benefit to their employees.

#### 14. - Financial income and expenses

Financial income for fiscal year 2017 and 2017 correspond to interest earned on the savings account amounted to Q239 and Q 1,997, respectively.

Financial expenses for fiscal year 2017 and 2016 correspond mainly to commissions and banking fees.

#### **15. - Other information**

##### *Compliance regarding prevention and detection of money laundering and financing of terrorism*

In accordance with Article 11 of the Regulation of the Law against Money Laundering, as of December 31, 2017 and 2016, the NGO was not aware of any unusual and/or suspicious transaction.

#### **16. - Subsequent events**

Subsequent to year-end 2017, the NGO dismissed five employees as a result of internal restructuring in order to reduce costs. Severance paid in February 2018 amounted to Q 69,970.