

**Fundación Internacional para  
la Asistencia Comunitaria / Finca  
Guatemala**

**Independent Auditors' Report**

**Financial Statements**

For the years ended August 31, 2003 and 2002

Lara, Aranky & Ayestas, CPA

# FUNDACIÓN INTERNACIONAL PARA LA ASISTENCIA COMUNITARIA / FINCA GUATEMALA

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## **INDEPENDENT AUDITORS' REPORT**

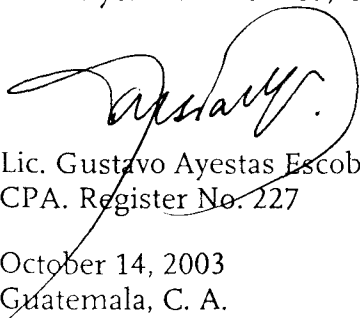
To the Board of Directors of  
FINCA Guatemala

We have audited the accompanying balance sheets of FINCA Guatemala as of August 31, 2003 and 2002, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our examination in accordance with auditing standards generally accepted in Guatemala, which are similar to those in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting standards used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis to issue an opinion.

Due to the nature of the entity, the interest on loans granted and debts in its favor is recorded as income as it is received, as described in note 1a, which is a comprehensible accounting basis applied to non-profit institutions which is different from international accounting standards.

In our opinion, except for that indicated in the paragraph above, the aforementioned financial statements present fairly in all material respects the financial situation of FINCA Guatemala at August 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with international accounting standards.



Lic. Gustavo Ayestas Escobar  
CPA. Register No. 227

October 14, 2003  
Guatemala, C. A.

**FUNDACIÓN INTERNACIONAL PARA LA ASISTENCIA COMUNITARIA /  
FINCA GUATEMALA**

**BALANCE SHEETS**  
**AUGUST 31, 2003 AND 2002**  
(Expressed in Quetzales)

<b>ASSETS</b>	<b>Notes</b>	<b>2003</b>	<b>2002</b>
<b>CURRENT ASSETS:</b>			
Cash and banks	2	Q. 1,409,432	Q. 1,132,461
Accounts receivable	3	79,514	8,968
Loans receivable	1c and 4	4,701,859	2,074,416
		<u>6,190,805</u>	<u>3,215,845</u>
<b>FIXED ASSETS</b>	1b and 5	<u>379,499</u>	<u>140,402</u>
<b>OTHER ASSETS</b>	6	<u>89,115</u>	<u>85,873</u>
Total assets		<u>Q. 6,659,419</u>	<u>Q. 3,442,120</u>
<b>LIABILITIES</b>			
<b>SHORT-TERM:</b>			
Accounts payable	7	1,970,152	962,495
Withholdings and taxes payable	1g and 10	471,115	219,246
Loans payable	8	800,703	213,418
		<u>3,241,970</u>	<u>1,395,159</u>
<b>OTHER LIABILITIES:</b>			
Estimated severance compensation	1d	<u>67,946</u>	<u>33,414</u>
<b>DONATIONS TO BE GRANTED AS LOANS</b>	1e and 9	<u>214,337</u>	<u>165,353</u>
Total liabilities		<u>3,524,253</u>	<u>1,593,926</u>
<b>EQUITY</b>		<u>3,135,166</u>	<u>1,848,194</u>
		<u>Q. 6,659,419</u>	<u>Q. 3,442,120</u>

See notes to the financial statements.

**FUNDACIÓN INTERNACIONAL PARA LA ASISTENCIA COMUNITARIA /  
FINCA GUATEMALA**

**EQUITY STATEMENT  
FOR THE YEAR ENDED AUGUST 31, 2003**

(Expressed in Quetzales)

	<b>Note</b>	<b>Balance at 01/09/02</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at 31/08/03</b>
EQUITY					
CONTRIBUTION		<u>Q. 78,260</u>	Q. -		<u>Q. 78,260</u>
DONATIONS	1e	<u>1,637,944</u>	1,177,369		<u>2,815,313</u>
ACCUMULATED INCOME					
Prior years		131,990			131,990
For the year		<u>-</u>	109,603		<u>109,603</u>
		<u>131,990</u>			<u>241,593</u>
		<u>Q. 1,848,194</u>	<u>Q. 1,286,972</u>		<u>Q. 3,135,166</u>

See notes to the financial statements.

**FUNDACIÓN INTERNACIONAL PARÁ LA ASISTENCIA COMUNITARIA /  
FINCA GUATEMALA**

**STATEMENTS OF INCOME AND EXPENSES  
YEARS ENDED AUGUST 31, 2003 AND 2002**

(Expressed in Quetzales)

	<b>Note</b>	<b>2003</b>	<b>2002</b>
INCOME:	1a		
Interest on loans		Q. 2,474,159	Q. 1,486,556
Donations		74,509	13,032
Other income		33,345	34,791
		<u>2,582,013</u>	<u>1,521,347</u>
EXPENSES:			
Financial expenses	11	398,800	152,372
Credit expenses	12	1,394,635	636,513
Indirect credit expenses (administrative)	13	678,975	518,384
		<u>2,472,410</u>	<u>1,307,269</u>
Net income (expenses) before extraordinary entries		109,603	214,078
EXTRAORDINARY ENTRIES:			
Prior years income		<u>-</u>	<u>664</u>
Net income (expenses)		<u>Q. 109,603</u>	<u>Q. 214,742</u>

See notes to the financial statements.

**FUNDACIÓN INTERNACIONAL PARA LA ASISTENCIA COMUNITARIA /  
FINCA GUATEMALA**

**CASH FLOW STATEMENT  
FOR THE YEARS ENDED AUGUST 31, 2003 AND 2002**  
(Expressed in Quetzales)

	<b>2003</b>	<b>2002</b>
<b>OPERATING ACTIVITIES:</b>		
Net income/expenses	Q. 109,603	Q. 214,742
Adjustments to reconcile income and expenses and cash obtained from operations:		
Depreciations	96,988	52,250
Severance compensations	34,532	33,414
Estimate for non-collectable loans	271,006	13,869
Net changes in assets and liabilities:		
Account receivables	(70,546)	6,479
Loans receivables	(2,879,664)	(583,105)
Other assets	(3,242)	(14,390)
Withholdings and taxes payable	251,869	145,999
Accounts payable	988,872	408,632
Donations to be granted as loans	48,984	(112,754)
Payment of severance compensations	-	(16,772)
	<u>(1,151,598)</u>	<u>148,364</u>
Net cash used in operating activities		
<b>INVESTING ACTIVITIES:</b>		
Acquisition of current assets	<u>(336,085)</u>	<u>(60,443)</u>
Net cash used in investing activities	<u>(336,085)</u>	<u>(60,443)</u>

(Continued)

**FUNDACIÓN INTERNACIONAL PARA LA ASISTENCIA COMUNITARIA /  
FINCA GUATEMALA**

**CASH FLOW STATEMENT  
FOR THE YEARS ENDED AUGUST 31, 2003 AND 2002**

(Expressed in Quetzales)

	<b>2003</b>	<b>2002</b>
FINANCING ACTIVITIES:		
Donations increase	1,177,369	364,214
IDB'S account	-	(33,317)
Loans received	587,285	(13,047)
	<u>1,764,654</u>	<u>317,850</u>
Net cash obtained from financing activities	1,764,654	317,850
NET CASH FLOW	276,971	405,771
INITIAL CASH AND BANKS BALANCE AT BEGINNING OF THE PERIOD	<u>1,132,461</u>	<u>726,690</u>
FINAL CASH AND BANKS BALANCE AT END OF THE PERIOD	<u>Q. 1,409,432</u>	<u>Q. 1,132,461</u>

See notes to the financial statements.

(Concluded)

# FUNDACIÓN INTERNACIONAL PARA LA ASISTENCIA COMUNITARIA / FINCA GUATEMALA

## NOTES TO THE FINANCIAL STATEMENTS

AT AUGUST 31, 2003 AND 2002

(Expressed in Quetzales)

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### 1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The **Fundación Internacional para la Asistencia Comunitaria / FINCA GUATEMALA**, was created through a deed signed by the founding members on February 26, 1997 acquiring its legal status on that same date. It is an association that is private, non-profit and apolitical in nature and has the objective of promoting technical and financial assistance for the integral, economic, and social development of the Guatemalan people.

Currently, the Foundation provides credits to women involved in different microenterprise activities, who are grouped in groups of an average of 25 members, under the name Village Bank. Each credit granted has duration of 4 months and a 4% monthly interest rate.

**Significant Accounting Policies** - The following is a summary of the significant accounting policies used in the preparation of the financial statements.

- a. **Recognition of Income** – Income is recognized according to the cash method.
- b. **Fixed Assets** - Are registered at cost. Depreciation is registered using the straight line method, as follows:

Furniture and equipment	20.00%
Computer equipment	33.33%
Other assets	10.00%

- c. **Estimate for Non-collectable Accounts** – The Foundation has created a provision at August 31, 2003 and 2002 amounting to Q. 343,507 and Q. 72,501 respectively. It is calculated in the following manner:

1%	-	1 to 30 days
25%	-	31 to 60 days
50%	-	61 to 90 days
75%	-	91 to 180 days
100%	-	181 days or more

- d. **Provision for Severance Payments** – The Foundation has made a provision of 9.72% of the salaries paid of the period.

- e. **Donations**– These are donations from Finca Internacional and AID, which upon receipt are registered as Donations to be Granted. When the disbursement is made it is applied to the portfolio or fixed assets accordingly. Subsequently, said donations are capitalized.
- f. **Use of Estimates** – The financial statements have been prepared in conformity with International Accounting Standards and consequently include amounts that are based on Management’s best estimate and judgment. The actual results could differ from said estimates. The estimates made by the Administration include estimates for doubtful accounts, useful life of fixed assets, and severance payment provision.
- g. **Taxes Payable** - Since July of 2000 a tax provision pending payment has been accumulated. This provision is for the Tax on Financial Products (Impuesto sobre Productos Financieros) corresponding to 10% of the interest charged to users of the credits granted. Finca Guatemala absorbs said tax, charging it to direct credit expenses, due to the credit structure of the entity.

## 2. CASH AND BANKS

At August 31 the balance was comprised as follows:

	<b>2003</b>	<b>2002</b>
Petty cash	Q. 6,000	Q. 2,000
Banrural (monetary deposit)	5,052	-
Bancafé AID (monetary deposit)	219,088	63,019
Bancafé (monetary deposit)	176,783	322,672
Bancafé (savings deposit)	1,000,444	742,705
Banco Industrial (savings deposit)	2,026	2,026
Banco Reformador (savings deposit)	39	39
	<u>Q. 1,409,432</u>	<u>Q. 1,132,461</u>

## 3. ACCOUNTS RECEIVABLE

They are as follows:

	<b>2003</b>	<b>2002</b>
Bounced checks	Q. 4,857	Q. 6,179
Accounts receivable employees	10,777	-
Finca Internacional	63,005	1,914
Miscellaneous accounts	875	875
	<u>Q. 79,514</u>	<u>Q. 8,968</u>

#### 4. LOANS RECEIVABLE

At August 31 they were comprised as follows:

	<b>2003</b>		<b>2002</b>	
Loans to community groups	Q.	5,021,484	Q.	2,129,564
Other		<u>23,882</u>		<u>17,353</u>
		5,045,366		2,146,917
(-) Estimate for non-collectable accounts		<u>(343,507)</u>		<u>(72,501)</u>
	Q.	<u>4,701,859</u>	Q.	<u>2,074,416</u>

#### 5. FIXED ASSETS

They are comprised as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>	
			<b>2003</b>	<b>2002</b>
Vehículos	Q. 119,576	Q. 7,972	Q. 111,604	Q. -
Furniture and equipment	122,377	45,998	76,379	62,202
Computer equipment	302,360	125,690	176,670	70,614
Other fixed assets	<u>17,344</u>	<u>2,498</u>	<u>14,846</u>	<u>7,586</u>
	Q. 561,657	Q. 182,158	Q. 379,499	Q. 140,402

#### 6. OTHER ASSETS

At August 31 they were comprised as follow:

	<b>2003</b>		<b>2002</b>	
Deposits	Q.	8,300	Q.	8,300
Organizational expenses (net)		14,028		17,020
Other deferred charges		<u>66,787</u>		<u>60,553</u>
	Q.	<u>89,115</u>	Q.	<u>85,873</u>

#### 7. ACCOUNTS PAYABLE

	<b>2003</b>		<b>2002</b>	
Benefits payable	Q.	27,807	Q.	15,720
Community groups		1,811,226		784,249
FINCA Internacional		76,930		127,744
Provisions		45,284		24,640
Other accounts payable (excess payments)		8,905		4,769
Suspense accounts		<u>-</u>		<u>5,373</u>
	Q.	<u>1,970,152</u>	Q.	<u>962,495</u>

## 8. LOANS PAYABLE

Corresponds to a line of credit granted on December 23, 2000 by Banco de Desarrollo Rural, S. A. – BANRURAL for an amount of up to Q. 1,000,000 under the arrangement of a Secured-Fiduciary Loan, for a three year term, at a variable rate of 16% and with monthly amortizations. At August 31, 2003 and 2002 the balance is Q. 800,703 and Q. 213,418, respectively.

## 9. DONATIONS TO BE GRANTED AS LOANS

	<b>2003</b>	<b>2002</b>
FINCA Internacional	Q. 45,738	Q. 107,109
AID	<u>168,599</u>	<u>58,244</u>
	<u>Q. 214,337</u>	<u>Q. 165,353</u>

## 10. CONTINGENCIES

Finca Guatemala is a member of the Association called Red de Instituciones de Microfinanzas – Redimif (Network of Microfinance Institutions), which is in the process of presenting a proposal for modifying Decree 44-2000, so that entities with the characteristics of Finca Guatemala could be exempt from the Tax on Financial Products. It has been agreed upon, at the association level, that no payment for said tax will be made while they await a favorable resolution. If said process does not reach its objective, Finca Guatemala would be committed to paying the tax, plus possibly fines and interest, which could be more than double the figure currently shown as a liability.

## 11. FINANCIAL EXPENSES

	<b>2003</b>	<b>2002</b>
Interest on obligations	Q. 76,546	Q. 50,237
Membership fee Fca. International	310,834	96,702
Interest on obligations guarantee comunal entities	<u>11,420</u>	<u>5,433</u>
	<u>Q. 398,800</u>	<u>Q. 152,372</u>

## 12. DIRECT EXPENSES

	<b>2003</b>		<b>2002</b>
Salaries and wages	Q. 216,081	Q.	76,749
Bonuses	32,065		14,208
Employer contribution	23,457		8,921
Severance	21,368		7,740
Christmas Bonus	19,045		6,633
Bonus 14	18,312		6,633
Vacation	9,167		3,320
Incentives	55,101		13,561
National mobilization expenses	56,926		14,397
Operational expenses	26,604		3,996
Taxes and withholdings	246,792		146,400
Provision bad debt loans	323,241		148,392
Depreciation of fixed assets	96,988		53,079
Telephone service	13,137		9,939
Mail service	3,880		-
Electricity	5,755		3,925
Security service	1,019		-
Office leasing	94,800		57,200
Maintenance and repairs of office and equipment	4,184		2,738
Electronic mail	1,170		1,170
Taxes and rights	2,382		-
Fees and services	45,633		2,920
Advertisement and publications	10,702		2,162
Training	3,386		4,132
Stationery and supplies	63,440		39,571
Miscellaneous	-		8,727
	<u>Q. 1,394,635</u>		<u>Q. 636,513</u>

## 13. INDIRECT EXPENSES

	<b>2003</b>		<b>2002</b>
Salaries and wages	Q. 128,668	Q.	110,511
Bonuses	14,115		11,908
Employer contribution	13,424		11,461
Severance	11,904		10,111
Christmas Bonus	10,202		9,646
Bonus 14	10,202		8,665
Vacation	5,107		4,338
Incentives	5,100		500

	<b>2003</b>	<b>2002</b>
National mobilization expenses	28,289	57,244
Training of administrative personnel	1,440	8,555
Amortizations	4,639	5,675
Telephone service	39,956	24,709
Mail service	2,086	234
Electricity	5,285	4,223
Water and sewerage	509	353
Trash removal service	1,061	480
Office leasing	-	13,000
Travel abroad and within the country	15,794	2,972
Maintenance and repairs of office and equipment	67,074	38,932
Insurance	6,714	2,269
Advisory and audit services	86,659	139,016
Fees and services	164,258	8,917
Meetings and entertainment	1,592	3,147
Stationery and supplies	23,344	15,484
Membership and subscriptions	6,430	8,650
Miscellaneous	25,123	17,384
	<u>Q. 678,975</u>	<u>Q. 518,384</u>

## 11. MONETARY UNIT

The company's financial statements are expressed in Quetzales, official currency of the Republic of Guatemala. On March 16, 1994 the Monetary Board authorized that the value of the quetzal in relation to the U.S. dollar be fixed in the national banking market through the supply and demand of currencies.

At August 31, 2003 and 2002 the exchange rate was Q. 7.94735 and Q. 7.90630 per US\$1.00 respectively.

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