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AUDIT OF
COOPERATIVA AGRICOLA
INTEGRAL LOS MANZANEROS, R.L.
USAID/GUATEMALA PROJECT NO. 520-0238

AUDIT REPORT NO. 1-520-86-05-N
MAY 30, 1986

AGENCY FOR INTERNATIONAL DEVELOPMENT

U. S. MAILING ADDRESS:
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OFFICE OF THE REGIONAL INSPECTOR GENERAL
AMERICAN EMBASSY
TEGUCIGALPA — HONDURAS

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also 32-3120/9, EXT. 293 & 296

May 30, 1986

MEMORANDUM FOR: D/USAID/Guatemala, Charles E. Costello

FROM : RIG/A/T, Coinage N. Gothard Jr.

SUBJECT : Audit Report No. 1-520-86-05-N, "Audit of Cooperativa Agricola Integral Los Manzaneros, R.L."

This report presents the results of a non-Federal financial and compliance audit that your Mission requested of Cooperativa Agricola Integral Los Manzaneros (Cooperative), R.L., a Guatemalan farm cooperative. The certified public accounting firm of Touche Ross & Co. in Guatemala prepared the report which is dated April 19, 1986.

The purpose of this audit was to determine if the financial statements of the Cooperative fairly presents its financial position; to identify any material weaknesses in the Cooperative's system of internal controls; and to determine if the Cooperative complied with applicable laws, regulations, and agreements.

In the opinion of Touche Ross & Co., the financial statements do not fairly present the Cooperative's financial position. Their study and evaluation of the Cooperative's system of internal controls disclosed that it is not functional. As a result of their review, they believe that the Cooperative has not complied with all the applicable Guatemalan laws, regulations, and agreements. For items not tested, nothing came to their attention that caused them to believe that untested items were not in compliance with applicable laws and regulations.

The Touche Ross report contains 24 recommendations to improve the Cooperative's internal controls and five recommendations to achieve compliance with applicable laws, regulations, and agreements. The project under which this Cooperative received funds is completed; however, we understand that the Cooperative may receive future technical assistance. We believe that the recommendations contained in this audit report will significantly improve the Cooperative's administrative and compliance weaknesses and that any future technical assistance to the Cooperative should include implementing the recommendations contained in this report. As a result, the following recommendation will be included in the OIG's audit recommendation follow-up system.

Recommendation No. 1

USAID/Guatemala include the recommendations in the Touche Ross audit report as a part of any future technical assistance to Cooperativa Agricola Integral Los Manzaneros, R.L

Please advise this office within thirty days of the actions planned or taken to implement this recommendation.

Lara & González, CPA
Member Firm
Touche Ross International

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

AUDIT REPORTS

DECEMBER 31, 1985

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COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

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Lara & González, CPA
Member Firm
Touche Ross International

Mr. Coinage N. Gothard
Regional Inspector General for Audit
U. S. Agency for International Development
Tegucigalpa, Honduras, C. A.

Dear Mr. Gothard:

This report presents the results of our audit of the Cooperativa Agricola Integral Los Manzaneros, R. L.

Background

Cooperativa Agricola Integral Los Manzaneros, Limited Liability (R. L.), domiciled in the Department of El Quiché, with its headquarters in Canton Chulumal, Municipio de Chichicastenango, Department of El Quiché; was organized on December 9, 1982, obtaining at that date its legal status as a Cooperative and the approval of its statutes. It is registered in folio No. 371, book 1 of the National Institute of Cooperatives.

The Cooperative's principal activity is the sale of apples and other products that are peculiar in the region, such as grapes and plums. According to its bylaws the Cooperative is to improve the economic and social well being of its associates and to develop activities that tend to improve their agricultural production, including industrialization, transportation, storage, sale and distribution of their products.

The Cooperative receives financial and technical assistance in accordance with loan agreement 520-T-030 between the Government of Guatemala and the Agency for International Development (USAID) to strengthen the Cooperative and business mechanisms for producing, packing, storing, processing, and marketing vegetables and fruits grown in the highlands by means of:

1. Financial assistance from Banco Nacional de Desarrollo Agricola (BANDESA) to at least three agricultural cooperatives of fresh vegetables grown in the highlands.

2. Financial assistance from BANDESA for one cooperative and other organized groups of apple producers.

3. Credit assistance from the Banking system for processing

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and commercialization of vegetables.

The funds to be financed by BANDESA are constituted by a modified trust agreement with the Government of Guatemala.

Objective and Scope of the Audit

The overall objective of the examination was to perform a financial and compliance audit of Cooperativa Agrícola Integral Los Manzaneros, R. L. as a participant in the small farmer marketing project (USAID/Guatemala Proyect number 520-0238) for commercialization of vegetables and fruits.

The audit was performed in accordance with generally accepted auditing standards and with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" (1981 Revision) and accordingly included such tests to determine if the funds and/or commodities have been properly accounted for and used as directed by the agreements or other applicable programs and by the laws of Guatemala.

The examination of the Cooperative included sufficient work to determine if the financial statements present fairly the financial position and the results of its financial operations in conformity with generally accepted accounting principles, and if the Cooperative has complied with laws, regulations and project agreement terms that may have an effect on the financial statements.

The review was performed in conjunction with the accounting technical assistance work previously carried out by our Firm for the Cooperative so that the findings and recommendations are consistent with the system developed under that contract.

The scope of the work consisted of:

1. Examining the financial statements of the Cooperative as of December 31, 1985.

2. Performing a review and evaluation of the accounting system to determine if it is in compliance with laws and bylaws of the Cooperative and generally accepted accounting principles.

3. Performing a detailed review of the funds disbursed by the Cooperative from January 1, 1982 to December 31, 1985 to determine if the expenses were correctly and adequately supported.

4. Reviewing the internal control system of the Cooperative with an emphasis on transactions of costs and purchases and the management of supplies and materials.

5. Reviewing warehouse functions.

6. Examining the sales system.

Results of the Audit

1. Financial Statements

A summary of the results of our examination shows that the financial statements of the Cooperative do not present fairly the financial position due to errors in the financial statements caused by an inappropriate application of accounting principles and inadequate accounting records. The financial position is affected by the going concern contingency due to the accumulated losses, modest capitalization of their associates that represents only three percent of the total assets, and low profitability of its operations.

2. Internal Control

Our study and evaluation of the Cooperative's internal control system determined that it is not functional nor contributing to control objectives, basically due to a:

A. Lack of an active participation by the Board of Directors for its operation.

B. Lack of qualified personnel and training programs.

C. Inadequate accounting records.

D. Lack of understanding by the Cooperative staff of generally accepted accounting principles and fiscal regulations which affect the Cooperative.

E. The manager was hired and his salary is financed by an external institution.

3. Compliance with Laws, Regulations, and Applicable Agreements

As a result of our review, we believe that the Cooperative has a contingent liability for omission of taxes due to non-compliance with applicable laws, agreements and contracts. The effect of noncompliance with Value Added Tax and social security law has caused a contingent liability for omission of taxes, penalties and moratorium interest that affect the Cooperative by an estimated Q.15,000.

The noncompliance with its statutes is related to the deficiencies in internal controls which do not permit the Cooperative to reach the objectives for which it was created.

For items not tested, nothing came to our attention that caused us to believe that untested items are not in compliance with applicable laws and regulations.

Touche Ross & Co.

TOUCHE ROSS & CO.
Certified Public Accountants

April 19, 1986
Guatemala

Lara & González, CPA
Member Firm
Touche Ross International

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

EXAMINATION OF FINANCIAL STATEMENTS

AUDITOR'S OPINION

We have examined the balance sheet of Cooperativa Agrícola Integral Los Manzaneros, R. L. as of December 31, 1985, and the related statements of income, retained earnings, and changes in financial position for the year ther ended. Except as explained in the following paragraph, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of Cooperativa Agrícola Integral Los Manzaneros, R. L. for the year ended December 31, 1984, were not audited by us and, accordingly, we do not express an opinion on such financial statements, which are only included in this report for comparison purposes.

The scope of our procedures was restricted due to the following reasons:

1. We did not observe the taking of the physical inventories of apple and agricultural supplies as of December 31, 1985 and 1984, since that date was prior to the time we were appointed as auditors of the Cooperative. Due to the nature of the accounting records of the Cooperative, we were unable to satisfy ourselves as to the inventory amount by means of other auditing procedures.

2. Due to the inadequate records, we were unable to satisfy ourselves as to the consistency of the applied inventories pricing method, as commented in the policy A-2, nor as to whether what was sold during December 1985, which generated the majority of sales of the year, had been invoiced and deposited.

The financial position of the Cooperative is affected by:

1. Other accounts receivable. An allowance for doubtful receivables for Q.12,242, on expired checks and advances for the purchase of vehicles to a salesman who died, more than

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two years old, has not been recorded.

2. Inventories. The cost of sales has not been adjusted with Q.29,642 of packing materials used during the previous years. Additionally agricultural supplies worth Q.3,009 recorded in transit were not included in the inventory but recorded as cost of the year.

3. Property and equipment - Net. Boxes, nails and other materials, worth Q.3,617 used in the process of harvesting and distributing apples that corresponds to costs of the period, are included as operating equipment in process.

4. Other assets. A shortage in cash for Q.2,901, whose origin is unknown, has not been adjusted.

5. Interest payable. Interest of Q.35,528 from long-term debt were not accrued.

As shown in the financial statements, the Cooperative incurred a net loss of Q. 108,334 during the year ended December 31, 1985. Which, if adjusted according to the items commented on above would report Q.204,255 financed with long-term loans. Such a situation evidences that the Cooperative might not be able to continue in existence. The financial statements do not include any adjustment refered to the recovery of assets or liabilities classification that might be necessary if the Cooperative would not be able to continue in existence.

As fully explained in Note G, the Cooperative is affected by contingent liabilities estimated of Q.15,000 from the omission of taxes.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of Cooperative Agricola Integral Los Manzaneros, R. L. as of December 31, 1985, or the results of its operations and changes in its financial position for the year then ended.

Touche Ross & Co.

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

BALANCE SHEETS

A S S E T S	December 31, 1985	1984
Current Assets		
Cash	Q. 71,495	Q. 44,646
Accounts Receivable:		
Trade	15,076	-
Associates	4,768	848
Other	12,321	12,196
Total Accounts Receivable	32,165	13,044
Inventories (Note C)	100,175	81,750
Prepaid Expenses	3,644	2,672
Total Current Assets	207,479	142,112
Property and Equipment - Net (Note D)	97,584	118,649
Other Assets	2,901	-
	Q.307,964	Q.260,761

LIABILITIES AND ASSOCIATES' EQUITY		
Current Liabilities:		
Accounts Payable and Accrued Expenses	Q. 12,757	Q. 24,092
Current Portion of Long-Term Debt (Note F)	106,407	
Total Current Liabilities	119,164	24,092
Long-Term Debt, less Current Portion (Note F)	288,609	324,973
Contingent Liabilities (Note G)		
Associates' Equity:		
Cooperative Capital (Note H)	8,180	6,970
Reserves (Note I)	345	330
Deficit (Note J)	(108,334)	(95,604)
	(99,809)	(88,304)
	Q.307,964	Q.260,761

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

STATEMENTS OF OPERATIONS

	Year Ended December 31, 1985	1984
Net Sales	Q.151,534	Q.137,115
Cost of Products Sold	131,361	102,405
	20,173	34,710
Operating Expenses:		
Selling and Administrative Expenses	33,054	102,481
Operating Losses	(12,881)	(67,771)
Other Income and (Expenses):		
Interest Expenses	(8,226)	(2,698)
Other Income	424	1,745
	(7,802)	(953)
Net Losses	Q.(20,683)	Q.(68,724)

See Notes To Financial Statements

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

STATEMENT OF ASSOCIATES' EQUITY

	Cooperative Capital	Reserves	Deficit
Balance, December 31, 1984	Q. 6,970	Q. 330	Q. (95,604)
New Affiliations Paid-in Capital	1,260	15	
Resigned Affiliations	(50)		
Prior Period Adjustments:			
Cancelling of Contracts for delivery and elimination of plant and equipment balance non itemized			(347)
Elimination of Acumulated Depreciation for Packing Materials			4,517
Discount over the rental of cold storage rooms in 1984			3,783
Net Loss 1985			(20,683)
Balance, December 31, 1985	Q. 8,180	Q. 345	Q.(108,334)

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1985

APPLICATION OF FUNDS:	
Operating Results:	
Net Loss	Q. 20,683
Less: Items not requiring the use of Working Capital	
Depreciation	20,477
Funds Applied to Operations	206
Current Portion of Loans	106,407
Retirement of Long Term Debt	8,365
Increase in Other Assets	2,901
Acquisition of Property	826
Decrease in Working Capital	(29,705)
	Q. 89,000
SOURCE OF FUNDS:	
Loans Received	78,408
Net Effect of Prior Period Adjustments	7,954
Sale of Property	1,413
Paid-in Capital	1,210
Increase in Legal Reserve	15
	Q. 89,000
INCREASE (DECREASE) IN WORKING CAPITAL COMPONENTS:	
Cash	Q. 26,849
Accounts Receivable	19,121
Inventories	18,425
Prepaid Expenses	972
Accounts Payable and Accrued Expenses	11,335
Current Portion of Long-Term Debt	(106,407)
	Q.(29,705)

See Notes to Financial Statements

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

A. Summary of Significant Accounting Policies:

1. Accounts Receivable. The overdue balance of the associates for sales of supplies earns interest of 1.5% per month which is recorded when collected.

2. Inventories. Are valued at the lower of cost or market. Cost is determined under the average method.

3. Property and Equipment. Are valued at cost. The depreciation is computed on a straight line method, based upon the estimated useful lives of the assets. The cost of maintenance and repairs is charged to expenses when incurred. The improvements to increase the useful lives of assets are capitalized. The cost of the assets sold or disposed of and their accumulated depreciation are eliminated in the year when the sale or disposal occurred.

4. Provision for Severance Compensation. Compulsory compensation for one month of salary for each year of service is paid when an employee dies or is dismissed without justification. In case of death the severance payment will go to their beneficiaries. The policy of the Cooperative is to record this benefit when the payment occurs. As of December 31, 1985 this liability amounts to Q.940.

5. Grant. The technical assistance received as part of the grant originated from the loan agreement 520-T-030 between the Government of Guatemala and Agency for International Development is not recorded (Note K).

B. The Cooperative:

The Cooperative was organized as a Cooperative of first grade and limited liability. It was constituted in Chulumal, Chichicastenango, Department of Quiché, and its bylaws were approved on December 9, 1982. Its main objectives are to obtain economic and social improvements for its associates and to develop activities that tends to improve their agricultural production. Its principal activity is the sale of apples to commercial markets and agricultural supplies to its members.

C. Inventories:

	December 31, 1985	December 31, 1984
Packing Materials	Q. 68,578	Q. 68,578

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

	December 31, 1985	December 31, 1984
Apples	Q. 26,617	Q. 10,999
Agricultural Supplies	4,980	2,173
	Q. 100,175	Q. 81,750

The inventories were pledged in guaranty of long-term debt as follows: (Note F)

a) 8,175 quintals of apples valued at Q.35 per quintal, which will be acquired each year during the term of the loan.

b) 7,928 quintals of apple valued at Q.40 per quintal, that will be acquired by the Cooperative during the term of the loan ending on August 30, 1989.

c) Packing material amounting to Q.27,850.

D. Property and Equipment - Net

	Depreciation	December 31, 1985	December 31, 1984
Buildings	10%	Q. 40,731	Q. 40,731
Furniture and Equipment	15%	1,750	1,750
Plant and Equipment	20%	78,074	79,502
Operating Equipment	20%	55	-
Vehicles	30%	16,500	16,500
Implements	60%	196	171
Operating Equipment in Construction		3,618	3,361
Installations		489	-
Depreciable Property		141,413	142,015
Less: Accumulated Depreciation		(49,829)	(29,366)
Depreciable Property - Net		91,584	112,649
Land		6,000	6,000
		Q. 97,584	Q. 118,649

Part of the property is collateral for a long-term debt (Note F).

E. Taxes:

The Cooperative enjoys exemption for payment of income taxes, stamp (documentary) taxes, sale taxes, legacies and donations of real estate designated for Cooperative operations; import duties on machinery working, vehicles, working tools and equipment. It remains under the financial supervision of the Government of Guatemala through the National Institute of Cooperatives (INACOP). In accordance with the Decree-law No. 97-84 the Cooperative is a contributor to the Value Added tax.

F. Long-Term Debt:

	December 31, 1985	December 31, 1984
8% annual interest; payable in 8 annual instalments, beginning on July 20, 1986; the first 7 installments of Q.23,000 each and the last of Q.23,633 with maturity date on July 20, 1993. It is guaranteed by a first agricultural pledge on 8,175 quintals of apples valued at Q.286,125, machinery and equipment for Q.81,000; mortage on the land which is property of the Cooperative valued at Q.4,800; fiduciary guarantee of the partners of the Cooperative. (Notes C and D) (1)	Q. 180,609	Q. 180,609
8% annual interest, payable in 5 instalments as follows: On February 28, 1986 Q.78,407; Q.5,000 on August 30, 1986 and three instalments of Q.27,000 each on August 30, 1987, 1988 and 1989 with expiration date on August 30, 1989. It is guaranteed by a farm pledge of 7,928 quintales of apple valued at Q.317,120, that will be acquired in 1985 and 1980, 2,000 plastic basket, valued at Q.27,850 and a solidarity and severaly bond of the partners of the Cooperative (Note C) (1)	164,407	94,364
Emergency contribution provided by the Committee for National Reconstruction		

	December 31, 1985	December 31, 1984
without interest, which expires on July 16, 1993	Q. 50,000	Q. 50,000
	395,016	324,973
Less: Current maturities	106,407	-
	Q 288,609	Q. 324,973

(1) Loan contracts for Q.180,609 and Q.164,407 establish the following contractual terms, which if defaulted can cause the expiration of the contract:

A. Failure in the punctual payment of the agreed amortizations and interest.

B. Not to lay an embargo upon the assets pledged in favor of the bank nor to the other assets of the Cooperative.

C. Substitute the guaranty if the deterioration or depreciation of the assets is such that does not offer a guaranty to the bank.

D. Not to use as a guaranty under any condition the properties pledged with the bank.

E. Not to use the funds for purposes different from the ones included in the agreement.

F. If the Cooperative enters into settlement or dissolution or if its bylaws are subject to modifications (Notes H and J).

G. Keep a specific accounting record to control the loan.

The Cooperative has defaulted the following contractual clauses of the loan that amounts Q.180,609; the clause E because Q.19,000 designated for the acquisition of fixed assets were used for working capital and the clause G.

The contractual clauses A and G of the loan that amounts Q.164,407 were defaulted; as well as the following stipulations of the Resolution No. JD-88-85 of the same loan:

a) No instalment was made to the loan with the income received from the sale of the financed apple.

b) The monthly listing of the sales of apples, showing the amount and quantity of the sales, was not sent to the bank.

c) The total amount of the credit granted, in inventories, accounts receivable or cash was not maintained.

Long-term obligations of December 31, 1985 are matured as follows:

Year ended December 31,	
1986	Q. 106,407
1987	50,000
1988	50,000
1989	50,000
Years subsequent to 1989	138,609
	Q. 395,016

G. Continget Liabilities:

The Cooperative has not collected the value added tax (IVA) on the sales of agricultural supplies from 1983 up to date and it was estimated that the omitted tax plus penalties and interest amount Q.7,222; also there were no compliance with the regulations of the Guatemalan Social Security Institute (IGSS) and it was estimated that the unpaid quotas amounted to Q.7,449.

H. Associates' Equity:

The capital of the Cooperative is variable, and it is made up with obligatory contributions with nominal value of Q.200 each, which can be paid through one sole payment when entering as an associate; or 25% when entering and the rest should be paid during a term of no longer than twelve months. These contributions do not earn interest.

Moreover, the associates can subscribe additional contributions for specific purposes, agreed in General Associates' Meeting, which will earn interest that cannot be higher than the actual rate used by the banking system for saving deposits. No associate can own more that 5% of Cooperative capital.

In conformity with the bylaws of the Cooperative, a dissolution

can be caused when there exist losses for more than a 60% of the capital and whenever it is not paid by the associates. As of December 31, 1985 the deficit amount was Q.108,334, and the capital of the Cooperative was Q.8,180, representing a total loss of the capital.

I. Legal Reserves

The bylaws of the Cooperative establish obligatory reserves on the operating results of each year, amounting to:

	December 31,	
	1985	1984
10% as a minimum for non-Distributable Reserve (1)	Q. 345	Q. 330
10% for Reserve for Education	-	-
10% for Reserve for Social Works	-	-

(1) The non-distributable reserve includes Q.5. from each affiliation quota of the associates.

J. Deficit:

To compensate for the dèficit, the General Ordinary Meeting of associates will decide its treatment by means of any of the following manners:

a) Its total cancelation with the non-distributable reserve, if the amount of such reserve is higher than the deficit.

b) Partial cancelation with the non-distributable reserve and defer the rest to the next two periods, whenever the deferred part is not higher than 50% of the deficit.

c) Cancel 50% of the deficit with the non-disbributable reserve and the rest through extraordinary quotas of the associates, to be paid in accordance with the decision of the General Meeting.

d) Cancel 100% of the deficit through extraordinary quotas of the associates, to be paid in accordance with the decision of the General Meeting.

The General Meeting decided to defer the deficit as of December 31, 1984 to compensate against future earnings for the next four years. The deficit of Q.20,683 obtained for the year ended December 31,

1985 was not accepted by the Ordinary General Meeting because it was considered that the financial statements do not show the real financial situation of the Cooperative.

K. Grant:

The loan agreement No.520-T-030 subscribed in February 15, 1984 between the Government of Guatemala and USAID includes the financial assistance project for:

a) Producing, packing, storing, processing, and selling of apples.

b) Credits for production.

c) Credits for consulting services and engineering supervision, building, equipment and working capital.

d) Technical assistance and training.

e) Other expenses.

The project provides funds from the USAID to finance the technical assistance and training. BANDESA will grant credits to the cooperatives and/or participating associations to finance the production, packing, storage and commercialization of vegetables and apples at an interest rate of 8% annually. The term for amortizating the credits and the days of grace will be established in accordance with the policies of BANDESA.

As of December 31, 1985 the Cooperative has received technical assistance, consisting of a technical consultant who works directly with the Cooperative to improve its administrative and accounting systems, under the supervision of the Committee of Coordination of the Agricultural Cattle and Nourishment Ministry, of the AID project and technical assistance to improve the administrative and accounting systems through the implementation of a dynamic and efficient accounting system.

L. Monetary Unit:

The financial statements and its notes are expressed in Quetzales (Q.), the national currency of Guatemala which have an exchange official rate of Q.1:US$1. Since April 1980 exchange controls were introduced for transactions in foreign currency.

On November 15, 1984 the Emergency Regime for Transactions in Foreign Currency was introduced replacing the measures introduced in April 1980, establishing, among other things the following conditions: a) An exchange rate of one-to-one for imports of goods which are considered as essential, and the rest of imports have to be paid with foreign currency acquired in the free market; b) The foreign currency from exports proceeds should be declared and sold to the Central Bank, a portion at the official exchange rate and the other on the free market, depending upon the type of articles that were exported and the country of destination. The aforementioned dispositions created three legal markets:

a) The controlled market for essential payments where the parity is maintained with the dollar of the United States of America, controlled by the Central Bank.

b) The auction market for the sale of the remaining foreign currency not used by the Central Bank, for the payment of imports that are not essential and that can be left behind, through the auction of exchange licenses. The exchange rate fluctuates based on the supply and demand of each auction.

c) The free (parallel) market utilized to negotiate foreign exchange mainly coming from investments and loans not assigned to the essential market, to cover payments other than those classified as essential or not included in the auction market. All payments other than those classified as essential, or not included in the auction market have to be made through this market. In December 31, 1985 the free market exchange rate reported an average of Q.2.983:US$1.

Lara & González, CPA
Member Firm
Touche Ross International

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON INTERNAL CONTROL SYSTEM

AUDITOR'S OPINION

We have performed the study and evaluation of the internal control system of Cooperativa Agrícola Integral Los Manzaneros, R. L. for the three years ended December 31, 1985. Our study and evaluation was performed in accordance with the standards for audit of programs, activities and functions for governmental organizations of the United States of America.

The management of Cooperativa Agrícola Integral Los Manzaneros, R. L. is responsible for the implementation and maintenance of the internal control system. To fulfill this responsibility, the management needs to make appraisals and judgements to be able to evaluate the expected benefits and the related costs of the control procedures. The objectives of an internal control system are to provide reasonable, but not absolute, assurance that the assets are adequately safeguarded from loss due to unauthorized disposition or use, and that the operations are executed in accordance with management approval and that they are correctly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Due to the inherent limitations of any internal control system, there may occur errors and irregularities which might not be detected by the system.

Our study and evaluation revealed some conditions in the internal control system of Cooperativa Agrícola Integral Los Manzaneros, R. L. for the three years ended December 31, 1985, which are described in the following sections No. 1 to No. 24,, and which taken as a whole, in our opinion, may result in more than a relatively low risk that errors and irregularities might occur in amounts that may be significant in relation with the financial statements and that may not be detected in a timely manner.

Touche Ross & Co.

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COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON INTERNAL CONTROL SYSTEM

YEARS ENDED DECEMBER 31, 1985, 1984 and 1983

1. Control on Inventories

Condition:

A. There does not exist an adequate control for the receipt and transfer of apples.

B. In the kardex for agricultural supplies, no reference is made to the invoice of the supplier when a reception is reported.

Criterion:

A. There should exist internal control mechanisms that permit the safeguard of the assets of the Cooperative.

B. The kardex for inventories control should reference the invoice number, date, name of supplier and number of the receipt document.

Cause:

A. Lack of administrative and operational organization.

B. Lack of knowledge of the objectives of the control on inventories.

Effect:

A. We could not be assured concerning the accuracy of the ending inventories as of December 31, 1985.

B. Difficulty in verifying that the purchases of agricultural supplies have been received in the warehouse of the Cooperative.

Recommendation:

A. Establish an inventory control system which permits a verification of the receipt and transfer of apples by variety and quality.

B. Instruct the personnel about the objectives of the control on inventories and how to operate the kardex.

2. Policy on Purchase Price of Apples

Condition:

During 1984 the purchase price was established at Q.0.30, Q.0.25,

Q.0.20 and Q.0.15 per pound for 1st, 2nd, 3rd and 4rd classes of apples respectively. This policy was not followed because we detected apples purchases at Q.0.60 per pound.

Criterion:

The policies fixed by the Cooperative should be followed, and with commercial logic, because the highest sale price of first class apples reported an average of Q.0.80 per pound.

Cause:

Apples were bought at higher prices than those established by the policy because, according to the accountant's explanation, the apples provided by some associates have a better quality.

Effect:

Decrease of the gross profit margin, due to an erroneous computation of the prices of apples, generating losses to the Cooperative.

Recommendation:

Establish the purchase prices of apples considering the external factors of supply and demand, quality of the apples, and purchasing season.

3. Sales of Apples

Condition:

A. In December 1983 apples valued at Q.61,419 were sold without invoicing but supporting the sale with cash receipts.

B. In December 1985 apples were sold for Q18,956 without issuing invoices or cash receipts.

Criterion:

In accordance with the legal dispositions and as an internal control measure all sales should be supported by an authorized invoice.

Cause:

A. The cause of this procedure is unknown for 1983.

B. Lack of organization for the sales of December 1985, which were made in Guatemala by Mrs. Miriam Díaz, who was recommended by the ex-manager Mr. Bruce Burton.

Effect:

The operational disorder and the lack of an adequate internal control system do not permit verification that all apples were sold, invoiced and collected in favour of the Cooperative. This lack of evidence, makes such items in the financial statements unauditable. As of December 31, 1985 the sales of apples amounted to Q.109,395.

Recommendation:

Introduce an adequate internal control system that permits the efficient administration of apple sales, which is the main source of funds for the Cooperative.

4. Alteration of Invoices

Condition:

In December 1984 we detected certain copies of invoices that were manually altered and with notes evidencing that, a smaller quantity of apples were delivered in comparison with that originally reported, as follows: Invoice No. 587; 641 and 683 amounting to Q.140, Q.90 and Q.140, respectively.

Criterion:

The supporting documentation should not be spotted, erased nor altered.

Cause:

It was altered to clarify numbers on the receipt and notes were included to indicate the amount of apples actually dispatched

Effect:

Difficulty in journalizing the sale and the follow up of its collection.

Recommendation:

Do not alter supporting documentation; if an error is detected, the invoice should be voided and a new invoice should be issued.

5. Accounting for the Sale of Apples

Condition:

The sale of apples has been recorded in the accounting system without any identification as to variety and quality of the apples.

Criterion:

This situation contributes to a weaker internal control system because it does not permit verification of the quality of the product transfered with respect to the issued invoice.

Cause:

Operational disorder in the sale; additionally, the variety and quality of the product is not described in the invoice.

Effect:

Difficulty in evaluating profitability of each variety of apple, the profitability that each variety produces. This may be cause an incorrect sales price for a specific variety.

Recommendation:

A. Introduce the use of an auxiliary record to control the apples by variety and quality.

B. Decribe on each invoice the variety and quality of the apple.

6. Shortage in Sales of December 1984

Condition:

The amount recorded as sales on December 31, 1984 does not reconcile with the supporting documentation as follows: Sales recorded Q.113.021, sales according to cash receipts and invoices Q.115,294 for a shortage of Q.2,273.

Criterion:

Each source documentation must generate an item in the accounting records.

Cause:

The accountant does not know the origin of the shortage.

Effect:

Evidence that there exists a lack of organization in the Cooperative; evidence of sales invoiced but not collected; risk of losses for the Cooperative.

Recommendation:

Introduce a sales journal that prevents and/or detect these errors.

7. Sale Prices for 1984

Condition:

The sale prices of the apples for 1984 were established by the secretary and the warehouse clerk of the Cooperative; no evidence of approval by the Board of Directors exists.

Criterion:

The sale prices should be established and authorized by the Board of Directors.

Cause:

Lack of participation by the Board of Directors.

Effect:

The arbitrary fashion for fixing the sale prices, without performing a study of the costs of the apples, and considering the external factors of spply and demand have generated losses in the operations of the Cooperative.

Recommendation:

A. The manager of the Cooperative should fix the sale prices taking into consideration a sufficient gross profit margin to absorb the operating expenses of the Cooperative.

B. The Board of Directors should approve these prices and keep written evidence of any exception.

8. File of Sales Price Listings

Condition:

There does not exist a file of inactive sale price listings for supplies, the list in force for 1985 shows changes without written evidence.

Criterion:

The sales price listings in force for the year should be filed in chronological order.

Effect:

It was not possible to verify the authorized sale prices for July 1985.

Recommendation:

Open a file for the expired sale price listings for supplies and leave written documentation of the authorization for any change.

9. Discount on Sales

Condition:

The actual President of the Board of Directors authorized verbally on December 1985 a discount of Q.800 on a sale made to Mr. Tomás Morales Algua.

Criterion:

The Board of Directors should give written approval for any kind of discounts, because it is a policy of the Cooperative not to grant any discount.

Cause:

According to the explanation of the President of the Board of Directors, he made this offer to Mr. Morales if he paid on time.

Effect:

There was no written evidence of these discounts and the Board of Directors was ignorant of them.

Recommendation:

Leave written evidence of the approval of the Board of Directors when granting discounts.

10. Credit Sales of Supplies

Condition:

On July 1985 a credit sale for Q.283.29 of agricultural supplies

was made supporting the transaction with "simple notes".

Criterion:

Any credit sale of supplies should be supported by a credit contract.

Cause:

The accountant is ignorant of why a credit contract was not made.

Effect:

Despatches to customers that may represent a high risk in recovering the account receivable or unauthorized to receive credits can occur.

Recommendation:

Support the credit sales of agricultural supplies with a duly authorized contract.

11. Use of Invoices

Condition:

In November 1984 the invoices stub book was not used in numerical order.

Criterion:

The invoices should be used in numerical order as a measure of internal control.

Cause:

Lack of organization and control when distributing the invoices stub book because in this season the invoicing is made in Guatemala City as the Cooperative's headquarter is located in Chichicastenango.

Effect:

It weakens the internal control on sales because it does not permit verification that all sales were invoiced.

Recommendation:

A. Instruct the personnel about the importance of the use of invoices in numerical order.

B. Organize adequately the distribution of stationery for the year end sales.

12. Voided Invoices

Condition:

In December 1983 the invoices numbered 19, 36 and 110 amounting to Q.497 were voided; however, the original invoices were not placed in the file of invoices.

Criterion:

All the original invoices of those voided and its respective copies should be filed in the correlative file of invoices to guaranty that they were voided.

Cause:

It is unknown.

Effect:

An inappropriate use of the original invoices may be made, generating unrecorded sales.

Recommendation:

File the complete set of voided invoices in the invoice file of the accounting department.

13. Deposit of the Collects

Condition:

The collection of the sales of December 1985 was used for the payment of wages in Guatemala City.

Criterion:

The collections should be completely deposited daily.

Cause:

Lack of organization and specific procedures.

Effect:

The internal control system of the collections becomes weak and unauthorized expenses might occur.

Recommendation:

Deposit daily and completely all collections and make every payment with check.

14. Reference in the Bank Deposit Note

Condition:

No reference to the source documentation is made in the bank deposit note.

Criterion:

A settlement form for the collections should be used, containing the necessary information to identify the documentation that has been collected and deposited, and to credit the operations to which it may correspond.

Cause:

Lack of coordination between the cashier and the salesmen.

Effect:

Weakens the internal control on collections; causes problems in verifying the amounts invoiced against those collected and deposited.

Recommendation:

A. Instruct the cashier and salesmen about the importance of an adequate reference to invoices, receipts and bank deposit notes.

B. Introduce the use of a settlement form for collections.

15. Adjustments to Financial Statements

Condition:

A. A provision for doubtful accounts on expired checks and advances, which is estimated in Q.12,242, was not recorded.

B. The consumption of packing material used in sales for 1985, 1984 and 1983, which is estimated in Q.29,642, was not recorded in expenses.

C. Inventories in transit amounting Q.3,009 were recorded as cost of sales.

D. Materials like boxes, nails, etc. valued in Q.3,617 and consummed during the year were recorded as property and equipment.

E. A shortage of Q.2,901 whose origin is unknown was not registered.

F. An advance from customers amounting Q.2,200 was not registered.

G. Interest payable on the long-term loans amounting Q.35,000 was not recorded.

H. A deposit of Q.1,000 that the Cooperative invested to improve a sales place in 18 Street, Zona 1 in Guatemala city which was managed by the ex-president of the Cooperative and not reported, was not recorded as a loss.

I. Insurance expenses amounting Q.1,458 and incurred in 1985 and 1984 were not recorded.

J. Expenses of Q.1,668 that correspond to this period were not recorded.

Criterion:

To comply with the generally accepted accounting principles, the Cooperative should record the aforementioned adjustments to present fairly the financial situation as of December 31, 1985.

Cause:

Lack of knowledge by the Accountant of the generally accepted accounting principles.

Lack of opportunity to submit these adjustments to the Ordinary General Meeting.

Effect:

The financial statements as of December 31, 1985 do not present fairly the financial situation of the Cooperative in accordance with generally accepted accounting principles.

Recommendation:

Fulfill the requirements of the generally accepted accounting principles and record the aforementioned adjustments during 1986 with a retroactive effect, rectifying the deficit.

16. Bank Reconciliation

Condition:

A. Bank reconciliation for 1985 were not updated until April 1986 when we required it.

B. In 1984 no bank reconciliations were made for all the months.

C. In 1983 no bank reconciliations were made.

Criterion:

The bank reconciliations should be made in a monthly basis to act as a detective control of the system.

Cause:

The accountant does not know why the bank reconciliations were not made for 1984 and 1983; with respect to 1985, the reconciliations have not been made because she considered it more important to keep the accounting records updated.

Effect:

It contributes to a weaker internal control system because it does not permit detection in a timely basis of operations in transit which might affect the financial situation of the Cooperative.

Recommendation:

Reconcile monthly the bank statement with the records and leave written evidence of its approval.

17. Labor Benefits - Christmas Bonuses

Condition:

They are calculated by the secretary and some errors exist.

Criterion:

The calculations of Christmas bonuses should be made by the accountant in accordance with the Decree Law No. 76-78 of the Congress of the Republic.

Cause:

Wrong distribution of the administrative personnel duties.

Effect:

An excess of Q.100 was included in the calculation of the Christmas bonuses.

Recommendation:

The calculation of labor benefits paid by the Cooperative must be made by the accountant.

18. Reference in the Supporting Documentation

Condition:

No voucher was made for all the payments incurred during December 1985 and 1984. No reference was made to the check number in the supporting documentation.

Criterion:

A voucher for every check issued should be prepared. Reference in the supporting documentation to check number must be made for its identification.

Cause:

The stock of vouchers was finished.

Effect:

Difficulty in identifying the supporting documentation for every issued check, making it impossible to verify that all checks are adequately supported.

Recommendation:

A. Estimate an adequate stock of vouchers for the use of the Cooperative.

B. Attach to each voucher its supporting documentation and identify the check number on each check.

19. Payroll

Condition:

A. The form used at the present to support the payrolls for the administrative personnel does not include all the necessary information related with overtime hours, details of deductions, etc.

B. They are not signed for by the recipients as an evidence of the payment's reception.

Criterion:

A. The payrolls have to be prepared with all the necessary information, to have an adequate control of the payment of salaries.

B. All the personnel should sign the payrolls.

Cause:

Lack of supervision and consistency in the established procedures because they were observed in the payroll for field personnel.

Effect:

A. Payment of unauthorized overtime may be made,or the respective deductions (advances on salaries, loans to personnel, etc.). may be not included.

B. There does not exist written evidence about the conformity of the employee with the salary received.

Recommendation:

A. Introduce the use of a form for payrolls containing as a minimum the following:

a) Employee's name;

b) Position;

c) Days of work;

d) Salary;

e) Discounts due to:

- Advances on salaries,
- Employees' quota of Social Security,
- Other;

f) Net salary;

g) Employee's signature;

h) Signatures for the preparing and authorizing agents; and

i) Date

B. Ask all the personnel to sign the payroll as evidence of their conformity.

20. Journalizing of the Cash and Bank Book

Condition:

A monthly summary of cash transactions is transferred directly to the authorized general ledger without any detailed itemization of expenses.

Criterion:

The summary has to be recorded in the journal entry prior to its record in the General Ledger.

Cause:

Unknown.

Effect:

No adequate evidence exists of the debits and credits in the General Ledger.

Recommendation:

Record in the journal entry the monthly summary from the cash and banks book and use this entry as a source for updating the General Ledger.

21. Recording of Checks issued during 1984 and 1983

Condition:

Checks issued during a specific month were not recorded until the support documentation was obtained.

Criterion:

Every check has to be recorded at the issuance date to keep control through the file of checks and to facilitate the reconciliation with the bank.

Cause:

Its is unknown, because the actual accountant did not work for the cooperative during those years. At the present this weakness has been fixed.

Effect:

Break of the internal control on payments, because it is not possible to verify that all the checks issued were recorded.

Recommendation:

A. Record all checks when issued.

B. Open a temporary file for all checks that lack supporting documentation and take steps to obtain it.

22. Cancelation of Supporting Dcomentation

Condition:

The supporting documentation is not canceled with a stamp of "PAID WITH CHECK No. _____DATE_____".

Criterion:

As an internal control principle, all supporting documentation should be canceled.

Cause:

Lack of organization and definition of specific administrative duties of the personnel.

Effect:

May cause duplicate payments.

Recommendation:

Cancel all the supporting documentation with a stamps designed for this purpose.

23. Petty Cash Recording and Reimbursement

Condition:

A. The control account for the petty cash in the authorized General Ledger is debited and credited with each reimbursement and liquidation of it.

B. A form for liquidation of expenses is not used.

Criterion:

A. Petty cash balance must remain fixed.

B. Use a form for liquidation of expenses.

Cause:

A. Lack of knowledge of the accounting criterion.

B. Lack of organization

Effect:

A. The accounting duties are duplicated.

B. No written evidence exists for the approval of those

expenses.

Recommendation:

A. Modify the balance of petty cash only when an increase or decrease occurs.

B. Introduce the use of a form for liquidation of petty cash expenses, fulfilling the following requirements:

   A. Name of the supplier of the expense,

   B. Accounting codification,

   C. Amount of the value added Tax - IVA,

   D. Amount of the expense,

   E. Signatures for "PREPARED BY_____", "REVISED_____", and "AUTHORIZED_____", and

   F. Date

24. Recording of Sales and/or Disposal of Fixed Assets

Condition:

During 1985, wood platforms and other equipment were sold for Q1,412, decreasing this amount of the plant and equipment account, but no adjustment was made to these accounts.

Criterion:

Whenever an asset is sold, it should be recorded decreasing its cost and accumulated depreciation but not recording the sale price; this is a wrong application of the accounting principle of cost.

Cause:

Lack of knowledge of the accouting technique.

Effect:

Its is unknown whether the transaction resulted in a profit or loss on sale and it affects the property account in the balance sheet.

Recommendation:

Whenever an asset is sold, retired and/or scrapped, the cost of acquisition and respective accumulated depreciation should be decreased from the accounts.

Lara & González, CPA
Member Firm
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COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON THE COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

AUDITOR'S OPINION

We have examined the financial statements of Cooperativa Agrícola Integral Los Manzaneros, R. L. for the year ended December 31, 1985 and we have performed a study and evaluation of the accounting internal control system for the years ended December 31, 1985, 1984 and 1983. Our examination and study were made in accordance with generally accepted auditing standards and with the standards for audit of programs, activities and functions for governmental organizations of the United States of America, which include, as additional standards and requirements, the review of the compliance with laws, regulations and agreements.

The scope of the matters subject to our examination included the following:

A. General Law for Cooperatives.

B. Value Added Tax Law.

C. Social Security Law.

D. Fiscal Stamp Tax Law.

E. Income Tax Law, whenever applicable.

F. Loan Agreements.

G. Statutes of the Cooperative.

Due to the inherent limitations of every internal control system, there may exist errors, frauds, abuses or illegal acts which may not be detected.

There does not exist an agreement directly between the Agency for International Development (USAID) and the Cooperative that establishes specific requirements for an assistance program which the Cooperative is receiving, at the present.

The clauses of default to the loan agreement are commented in Note F to the financial statements.

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Our examination and study revealed certain matters which are described in sections No. 1 to No. 5 enclosed and in the above paragraph, that in our opinion, the Cooperative has not complied with laws, agreements and contracts.

Touche Ross & Co.

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983

1. Statutes of the Cooperative

Condition:

Article No.	Title	Clause	Comments
3 and 4	Objectives	a) and g)	No Cooperative education is given to the associates as required.
4	Objectives	a)	The total contributions of the associates has not been collected up to date.
8	Cooperative Capital	-	Members have defaulted the 12 months term for collecting contributions.
10	Certificates of Contributions	-	The certificates of paid contributions have not been issued.
16	Obligations of the Associates	a)	The majority of associates do not attend the meetings as required.
		b)	The statutes are not strictly fulfilled.
		c)	Not all the associates have complied with the payment of their contributions.
		e)	No educational campaigns to promote the entrance of new associates have been made.
		f)	Some associates don't sell their crops of apples to the Cooperative as required. For example Messrs. Juan Sut Nacario, Isidro Alvarez and Tomas Mejia González.

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983

Article No.	Title	Clause	Comments
25	Retirement of the Associates	a), b), c) and d)	As of December 31, 1985 no action has been taken against the expresident of the Cooperative who apparently harmed the interest of the Cooperative (see Section 4).
32	General Associates' Meetings	-	They were held each year but the term of three months which establishes the bylaws were not made.
49	Meetings of the Board of Directors	-	They are not always held due to lack of quorum.
50	Attendance at Board of Directors' Meetings.	-	Members of the Board of Directors do not justify their non attendance at the meetings. Three consecutive absences without justification causes a loss of their position.
53	Employees of the Cooperative	-	The members of the Board of Directors may not be, at the same time, employees of the Cooperative; however, the secretary of the Board works as a warehouse clerk
55	Attributes of Board of Directors.	a)	They have not complied with the objectives of the Cooperative due to the defaultment of some articles.
		d)	It has not prepared a set of administrative regulations for the Cooperative
		j)	There has not been an adequate administration of the funds of the Cooperative.

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983

Article No.	Title	Clause	Comments
		k)	The payroll of persons elected to positions of the control is not sent to the National Institute of Cooperatives (INACOP) within the required time-frame (Ten days after the election).
		n)	The instructions received from INACOP about matters related with the Cooperative are not promptly answered
		r)	The financial statements are not reviewed periodically.
63	Attributes of the Vigilance Committee	a)	The activities of the manager and the treasurer of the Cooperative have not been monitored.
		b)	The operations of the Cooperative have not been reviewed.
		c)	No cash or securities counts have been made.
		e)	The compliance of the employees with their duties has not been verified
66	Attributies of the Educational Committee	a) and g)	It has not fulfilled any of its duties.
72	Knowledge of financial statements	-	The Board of Directors has not made available the financial statements to the Vigilance Committee in the established term of 40 days after closing the

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

REPORT ON COMPLIANCE WITH LAWS, REGULATIONS AND AGREEMENTS

YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983

Article No.	Title	Clause	Comments
			accounting period.
77	Compensation of Losses	-	The Ordinary General Meeting of Associates has not complied with the requirements of this article which requires the compensation of accumulated losses from 1984 and 1983 amounting to Q.95,604.
78	Dissolution and Liquidation	-	According to the statutes a loss of more than 60% of the paid-in capital, which cannot be covered with the reserves and/or contributions of the associates, causes dissolution of the Cooperative; as of December 31, 1985 the financial statements show an accumulated deficit of Q.108,334.

Criterion:

The bylaws of the Cooperative must be complied with.

Cause:

Lack of interest and participation by the Directors.

Efect:

Noncompliance with the law fees of Q.25 up to Q.1,000, suspension of the legal benefits, or termination of its legal status as a Cooperative.

Recommendation:

A. Comply with the law and bylaws of the Cooperative.

B. Encourage the participation of the associates in the activities developed by the Cooperative.

C. Make a plan for immediate action for the reactivation of the resources of the Cooperative to reach the objectives for which the Cooperative was created through an adequate operation.

2. Value Added Tax - IVA

Condition:

The Cooperative has not been registered in the internal review service as a contributor of the Value Added Tax, which has been in force since August 1983.

Criterion:

According to the Decree-Law No. 97-84 "Value Added Tax" article 9, clause 6, the Cooperative is obligated to be registered as a contributor and to collect the tax for selling agricultural supplies to third parties and associates.

Cause:

Lack of knowledge of the Law.

Effect:

A. VAT (IVA) on the sale of agricultural supplies has not been collected nor declared. We astimate the penalties and interests for omission at Q.7,300.

B. It has incurred penalties of Q.50 for issuing invoices which do not comply with the requirements established in the law.

C. It has incurred penalties of Q.100 for not being registered as a contributor.

Recommendation:

A. Register the Cooperative as contributor of the value added tax - IVA to comply with the regulations of this law.

B. Create a provision to cover the omitted tax in case of a tax audit.

3. Social Security Regime

Condition:

The Cooperative is not registered with the social security system, no deductions for the employees have been made, and no employers' share has been paid. No provision for this requirement has been recorded.

Criterion:

In accordance with article No. 295 of the social security law, the Cooperative is obliged to be part of the system and pay the employees' and employers' share.

Cause:

Lack of organization, administration and knowledge of the legal regulations in force by the administrative personnel of the Cooperative.

Effect:

Penalties and interest due to employees' and employers' share not being reported in a timely fashion manner. As of December 31, 1985 this liability is estimated at Q.7,500.

Recommendation:

Register the Cooperative with the social security system and take steps to reach an agreement on the shares not reported nor paid in a timely fashion.

4. Indications of Possible Fraud by the Ex-President of the Board of Directors

Condition:

A. In 1984 an Ex-President didn't refund to the Cooperative Q.3,107 on a discount obtained on the rental of cold rooms in Guatemala city.

B. In 1985, he sold, by his own account, the rights to a sales place that the Cooperative had localized in 18 street Zone 1 in Guatemala City for Q.1,000, and did not report such sale.

C. On January, 1985 he required the warehouse clerk to issue receipt No. 369, to the name of a third party for apples

that were not received by the Cooperative. Furthermore, this receipt was paid with check No. 916109 amounting Q.2,400 in favor of Mr. Francisco Ríos, advisor of Voit & Co.

Criteria:

Cooperative Officers must be trustworthy.

Cause:

Lack of action by the Oversight Committee and improper acts of the Ex-president. However, through a public record he recognized his debt of Q.3,106.52 in favor of the Cooperative.

Effect:

Losses for the Cooperative of Q.6,506.52.

Recommendation:

A. Consider dismissing this associate from the Cooperative.

B. Take steps through the court to collect the Q.3,400 mentioned in conditions A and B.

5. Advance for the Purchase of a Vehicle

Condition:

In December 1983 an advance of Q.5,000 for the purchase of a truck was given to Mr. Leonel Regalado. This transaction was never realized and, according to the cooperatives personnel and the lawyer, Mr. Regalado died.

Criterion:

When purchasing any vehicle, the commercial practice requires a public record of the purchases at the time a down payment is made.

Cause:

The origin of this transaction is unknown.

COOPERATIVA AGRICOLA INTEGRAL LOS MANZANEROS, R. L.

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Effect:

A. Inadequate handling of Cooperative funds.

B. Risk of loss in recovering this advance.

Recommendation:

A. Take steps, if possible, to recover this advance through the court.

B. For future purchases, seek advise to avoid the risk of making a poor investment with funds of the Cooperative.

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