

CAUCUS OF DEVELOPMENT NGO NETWORKS, INC.
(A Nonstock, Not-for-profit Organization)
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2008 AND 2007
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Organization

Caucus of Development NGO Networks, Inc. (the Organization or CODE-NGO) was incorporated and registered in the Securities and Exchange Commission (SEC) on January 30, 1991. It is an umbrella organization consisting of 6 national and 6 regional development non-government organizations networks in the Philippines. The Organization's activities are funded principally through the earnings of its endowment fund, grants received from external grantors, membership fees and donations.

On January 23, 2008, the Organization filed with SEC a change in its registered office, which is also its principal place of business, from 2nd Floor, CCS Building, Ateneo de Manila University, Katipunan Avenue, Quezon City to 69 Esteban Abada Street, Loyola Heights, Quezon City.

1.2 Approval of Financial Statements

The financial statements of the Organization for the year ended July 31, 2008 (including the comparatives for the year ended July 31, 2007) were authorized for issue by the Organization's Board of Trustees (BOT) on October 21, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Organization have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These financial statements have been prepared on the historical cost basis, except for revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Organization's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.9).

(c) *Fund Accounting*

The financial statements have been prepared based on the principles of fund accounting, which classifies funds' resources according to their nature and purpose for accounting and reporting. Separate accounts are maintained for each fund.

The Organization maintains fund groups as follows:

- (i) General fund – represents the portion of expendable funds that is available to support the Organization's operations.
- (ii) Endowment fund – represents funds restricted for the Organization's long-term sustainability.
- (iii) Special fund - represents grants received from certain funding agencies, which can only be used for specific projects upon approval by the grantor.
- (iv) Membership fund – represents fees received from members, which can be used for specific projects upon approval by the BOT.

2.2 *Impact of New Standards, Amendments and Interpretations to Existing Standards*

(a) *Effective in Fiscal Year 2008 that are Relevant to the Organization*

In fiscal year 2008, the Organization adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

Philippine Accounting Standards (PAS) 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures

Discussed below are the impact on the financial statements of these new and amended accounting standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Organization's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that became necessary due to this change in PAS 1 can be found on Note 21.

(ii) PFRS 7, *Financial Instruments: Disclosures*. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Organization's market risk exposure with regard to its financial instruments; and,
- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The new disclosures that became necessary due to the Organization's adoption of PFRS 7 are presented in Note 20.

The first time application of these new and amended standards has not resulted in any prior period adjustments of cash flows, revenues and expenses or statement of assets, liabilities and fund balances items.

(b) *Effective in Fiscal Year 2008 but not Relevant to the Organization*

Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 7	:	Insurance Contracts
Philippine Interpretation IFRIC 8	:	Applying the Restatement Approach under PAS 29, <i>Financial Reporting in Hyper Inflationary Economies</i>
Philippine Interpretation IFRIC 9	:	Scope of PFRS 2
Philippine Interpretation IFRIC 10	:	Re-assessment of Embedded Derivatives
	:	Interim Financial Reporting and Impairment

(c) *Effective Subsequent to Fiscal Year 2008*

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to fiscal year 2008 and relevant to the Organization is PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of revenue and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate revenues and expenses statement and a statement of comprehensive income. The revenues and expenses statement shall disclose revenues and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of revenue and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity (fund balances) arising from transactions with members are excluded from the statement of comprehensive income. An entity would also be required to include in its set of financial statements a statement showing its financial position (or statement of assets, liabilities and fund balances) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Organization will apply PAS 1 (Revised 2007) in its fiscal year 2010 financial statements.

2.3 Financial Assets

Financial assets include cash and financial instruments. The Organization classifies its financial assets into the following categories: loans and receivables, available-for-sale financial assets and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Regular purchase and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the revenues and expenses statement.

The categories of financial instruments that are relevant to the Organization are more fully described below.

(a) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Organization provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Organization will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

Loans and receivables are presented as Receivables in the statement of assets, liabilities and fund balances.

(b) *Held-to-maturity Investments*

These include non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to-maturity if the Organization has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. They are included under Available-for-sale Financial Assets account in the statement of assets, liabilities and fund balances.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

(c) *Available-for-sale Financial Assets*

These include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are presented as a separate line item in the statement of assets, liabilities and fund balances.

All financial assets within this category are initially recognized at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the revenues and expenses statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the revenues and expenses statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the revenues and expenses statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the revenues and expenses statement, the impairment loss is reversed through the revenues and expenses statement.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the statement of assets, liabilities and fund balances date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows (such as dividend income) of the underlying net asset base of the investment.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expense relating to financial assets recognized in profit or loss are presented in the revenues and expenses statement under Investment income.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.4 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed using the straight-line method over the useful life of the assets ranging from two to five years.

An asset's carrying amount is written down immediately to its recoverable amount if its amount is greater than its estimated recoverable amount.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each statement of assets, liabilities and fund balances date.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the revenues and expenses statement in the year the item is derecognized.

2.5 Financial Liabilities

Financial liabilities include accrued expenses and other liabilities and deferred grants.

Financial liabilities are recognized when the Organization becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the revenues and expenses statements as part of Operating Expenses.

Trade payables are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments.

Financial liabilities are derecognized from the statement of assets, liabilities and fund balances only when the obligations are extinguished either through discharge, cancellation or expiration.

2.6 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of assets, liabilities and fund balances date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

Provisions are reviewed at each statement of assets, liabilities and fund balances date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.7 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Organization and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- (a) *Investment income* – principally consist of gain on sale of investments, interest income and other income which are recognized when earned.
- (b) *Interest income on bank deposits* – Revenue is recognized as the interest accrues.
- (c) *Grants* – Grants are recognized upon fulfillment of the grantor-imposed conditions attached to the support and/or to the extent that expenses are incurred. At project completion date, any excess funds are returned to the grantors, unless otherwise agreed by both parties that the excess be retained by the Organization and therefore credited to general fund.

Project expenses, program expenses and other expenses are recognized in the revenues and expenses statement at the date they are incurred.

2.8 Leases

Leases, which do not transfer to the Organization substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the revenues and expenses statement. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Organization determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.9 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

Items included in the financial statements of the Organization are measured using the currency of the primary economic environment in which the Organization operates (the functional currency). The financial statements are presented in Philippine pesos, which is the Organization's functional and presentation currency.

(b) Transactions and Balances

The accounting records of the Organization are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the revenues and expenses statement.

2.10 Impairment of Non-financial Assets

The Organization's property and equipment are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal evaluation of discounted cash flow.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.11 Employee Benefits

The Organization has less than ten core employees in 2008 and 2007. It is required to provide retirement benefits to qualified employees under R.A.7641, which relates to a defined benefit plan. The Organization has not yet set up a formal employee retirement plan. However, the amounts recognized for retirement benefits expense and the corresponding retirement benefit obligation are included as part of Personnel Costs and is shown under the Operating Expenses account in the revenues and expenses statements and Accrued Expenses and Other Liabilities in the statement of assets, liabilities and fund balances, respectively.

3. CHANGE IN ACCOUNTING POLICIES

In 2004, the FRSC issued a series of new accounting standards that are adopted from International Accounting Standards (IASs), revised IASs and new International Financial Reporting Standards (IFRSs) issued by the IASB. The new FRSC accounting standards are effective in the Philippines for financial statements covering periods beginning on or after January 1, 2005.

Also, to correspond better with the issuances of the IASB, the FRSC re-named the standards it issues as PFRSs (previously referred to as Statements of Financial Accounting Standards or SFASs). PFRSs consist of:

- a. PFRSs – corresponding to International Financial Reporting Standards;
- b. PASs – corresponding to IASs; and,
- c. Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee, of the IASB which are adopted by the FRSC.

During the fiscal year 2007 and prior years, the financial statements of the Organization have been prepared in accordance with generally accepted accounting principles in the Philippines applicable to non-publicly accountable entities (NPAEs) as set forth in PAS 101, *Financial Reporting Standards for NPAEs*, issued and approved by the FRSC and the SEC, effective for periods beginning on or after January 1, 2005. PAS 101 will continue in effect unless withdrawn by the FRSC. PAS 101 provides an option to NPAEs to apply financial reporting standards effective as of December 31, 2004, and not to apply any of the new PASs and PFRSs that became effective in 2005, or to apply all or some of the relevant new accounting standards.

The Organization has qualified as an NPAE under PAS 101 and it has opted not to apply any PFRSs that became effective in 2005 and 2006 or subsequent to 2006. Accordingly, the applicable financial reporting standards effective as of December 31, 2004 were applied in the preparation of the financial statements for the fiscal year 2007 and prior years.

In fiscal year 2008, the Organization has adopted all the relevant standards of PFRS effective August 1, 2007. The requirements of these new standards have been applied in accordance with their specific transitional provisions, or retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The Organization's adoption of PASs and PFRSs did not result in material adjustments to the financial statements of the current and prior years, except for the effects of PAS 39, *Financial Instruments: Recognition and Measurement*. Under PAS 39, the investments classified by the Organization as held-to-maturity investments are to be measured at amortized cost using the effective interest rate method. The discount rate used was determined with reference to the market interest rate of comparable financial instruments at the date of issue. This resulted in the adjustment to the held-to-maturity investment account and General Fund amounting to P447,938 as of August 1, 2006.

The adjustment to increase bond premium amortization recognized in 2007 amounted to P401,541 which increased revenues during that year. The net adjustments to the beginning General Fund as of August 1, 2007 and 2006 amounted to P2,456,701 and P447,938, respectively. The carrying amount of held-to-maturity investments as of July 31, 2008 and 2007 amounted to P41,238,711 and P42,779,866, respectively.

The adjustment on the August 1, 2007 balance of the General Fund includes the entry to transfer the balance of the fair value gains on available-for-sale investments amounting P2,732,919 as part of the Endowment Fund, which were previously recognized in the statement of revenues and expenses (see Note 16).

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Organization's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience of future events that are believed to be reasonable under circumstances. Actual results may ultimately vary from these estimates.

4.1 Judgments

In the process of applying the Organization's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Held-to-maturity Investments

The Organization follows guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. This classification requires significant judgment. In making the judgment, the Organization evaluates its intention and ability to hold its investment in bonds up to maturity.

If the Organization fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. In such a case, the investments would therefore be measured at fair value, not amortized cost.

Had the Organization sold or reclassified more than an insignificant amount of held-to-maturity investments, the fair value would increase by P4,133,850 with a corresponding entry in the General Fund in the fund balance section of the statement of assets, liabilities and fund balances.

(b) Impairment of Available-for-sale Financial Assets

The Organization follows the guidance of PAS 39 in determining whether an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Organization evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of the near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

If the assumptions made regarding the duration that, and extent to which, the fair value is less than its cost, the Organization would incur an additional P13,223,166 loss in its 2008 financial statements, representing the transfer of the total Revaluation Reserves to the revenues and expenses statements.

(c) Operating Lease

The Organization has entered into several lease agreements as a lessee. Critical judgment was exercised by management to distinguish the lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense charged to operations amounted to P249,044 in 2007. This agreement expired on November 15, 2007.

(d) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.6 and relevant disclosures are presented in Note 17.

(e) *Retirement benefits*

The determination of the Organization's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. However, the Organization has not obtained an actuarial valuation, hence it uses assumptions based on the provisions of R.A. 7641.

The retirement benefit obligation amounted to P741,850 in 2008 and P529,920 in 2007 (see Note 15).

4.2

4.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of assets, liabilities and fund balances date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Useful Life of Property and Equipment*

The Organization estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment net of accumulated depreciation amounted to P367,191 and P231,158 as of July 31, 2008 and 2007, respectively (see Note 9).

(b) *Allowance for Impairment of Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Organization evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Organization's relationship with the member networks and partner NGOs based on their current credit status and liquidation experience with them.

Provisions for impairment of receivables amounted to P895,200 in 2008 and P1,192,356 in 2007 (see Note 6).

(c) *Valuation of Financial Assets Other than Receivables*

The Organization carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgement. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Organization utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect revenues and expenses and fund balances.

(d) *(d) Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Organization's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.10. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses recognized on non-financial assets during the fiscal years ended July 31, 2008 and 2007.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of July 31:

	<u>2008</u>	<u>2007</u>
Cash on hand	P 15,000	P 26,044
Cash in banks	2,518,134	4,581,843
Short-term placements	1,609,861	-
Cash for special projects	<u>259,298</u>	<u>1,425,044</u>
	<u>P 4,402,293</u>	<u>P 6,032,931</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of up to three months and earn interest ranging from 1% to 2% in 2008 and 2007. Interest income from cash and cash equivalents amounted to P46,095 in 2008 and P62,660 in 2007, and are reported as part of Other Income in the revenues and expenses statements.

Short-term placements consist of placements with the National Confederation of Cooperatives (NATCCO) and a local bank amounting to P1,009,861 and P600,000, respectively. These placements yield interest ranging from 4% to 7% per annum.

6. RECEIVABLES

Receivables include grants and other receivables at July 31 which consist of:

	<u>2008</u>	<u>2007</u>
Grants	P 3,242,210	P 6,815,696
Interest	1,513,990	1,571,174
Others	<u>2,184,929</u>	<u>2,598,914</u>
	6,941,129	10,985,784
Impairment	<u>(895,200)</u>	<u>(1,192,356)</u>
	<u>P 6,045,929</u>	<u>P 9,793,428</u>

All of the Organization's receivables have been reviewed for indicators of impairment. Certain advances were found to be impaired and provisions have been recorded accordingly.

A reconciliation of the allowance for impairment at beginning and end of fiscal years 2008 and 2007 is shown below:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 1,192,356	P 1,313,672
Reversal of impairment	<u>(297,156)</u>	<u>(121,316)</u>
Balance at end of year	<u>P 895,200</u>	<u>P 1,192,356</u>

In addition to impaired receivables, some of the unimpaired receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	<u>2008</u>	<u>2007</u>
Not more than 3 months	P 655,934	P -
More than 3 months but not more than 6 months	2,985,015	3,780,510
More than 6 months but not more than one year	375,949	5,423,104
More than one year	<u>2,029,031</u>	<u>589,814</u>
	<u>P 6,045,929</u>	<u>P 9,793,428</u>

7. AVAILABLE-FOR-SALE INVESTMENTS

As of July 31, this account consists of the following:

	<u>2008</u>	<u>2007</u>
Unitized investment trust fund	P 77,736,208	P 93,817,881
Loan fund	<u>14,456,083</u>	<u>12,217,376</u>
	<u>P 92,192,291</u>	<u>P 106,035,257</u>

The reconciliation of the carrying amounts of available-for-sale investments are as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	P 106,035,257	P 11,291,123
Additions	2,165,539	94,871,215
Disposals	(2,785,339)	(2,860,000)
Fair value gains (losses) - net	<u>(13,223,166)</u>	<u>2,732,919</u>
	<u>P 92,192,291</u>	<u>P 106,035,257</u>

The investment in unitized trust fund is collectible investments scheme that pools the investments of small investors into a larger fund under professional management that is able to access more superior investment opportunities normally not available to individual retail players. The investors share in the gains or losses of the fund, proportionate to their respective participation in the pool. The Organization intends to hold the investment in unitized investment trust fund on a long term basis.

The investment in loan fund consists of investments in the loan fund of the NATCCO. These investments earn interest at the rate of 10% per annum.

Investment income recognized on available-for-sale investments amounted to P1,261,360 and P7,236,179 in 2008 and 2007, respectively.

Revaluation reserves on the revaluation of available-for-sale financial assets presented as part of Endowment Fund under statement of changes in fund balances amounted to net fair value loss of P10,490,247 as of July 31, 2008 and net fair value gains of P2,732,919 as of July 31, 2007.

8. HELD-TO-MATURITY INVESTMENTS

This account consists of Republic of the Philippines (ROP) bonds being managed by a local bank. The total face value of these bonds and the related unamortized premium amounted to P39,726,000 and P1,512,711, respectively in 2008; and P41,049,900 and P1,729,966 respectively in 2007.

The fair values of the held-to-maturity financial assets at end of 2008 and 2007 are P45,390,589 and P45,372,562, respectively. The fair values of these bonds are based on the published price quotations in active markets.

Investment income earned on these investments, net of premium amortization and investment management fees amounted to P3,047,286 in 2008 and P4,231,757 in 2007.

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation at the beginning and end of fiscal years 2008 and 2007 are shown below:

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
July 31, 2008			
Cost	P 1,184,319	P 449,773	P 1,634,092
Accumulated depreciation	(897,958)	(368,943)	(1,266,901)
Net carrying amount	<u>P 286,361</u>	<u>P 80,830</u>	<u>P 367,191</u>
July 31, 2007			
Cost	P 993,829	P 382,199	P 1,376,028
Accumulated depreciation	(771,474)	(373,396)	(1,144,870)
Net carrying amount	<u>P 222,355</u>	<u>P 8,803</u>	<u>P 231,158</u>
August 1, 2006			
Cost	P 940,841	P 377,878	P 1,318,719
Accumulated depreciation	(665,865)	(370,090)	(1,035,955)
Net carrying amount	<u>P 274,976</u>	<u>P 7,788</u>	<u>P 282,764</u>

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007, of property and equipment is shown below:

	<u>Office Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Balance at August 1, 2007, net of accumulated depreciation	P 222,355	P 8,803	P 231,158
Additions	199,490	89,054	288,544
Depreciation charges for the year	(135,484)	(17,027)	(152,511)
Balance at July 31, 2008, net of accumulated depreciation	<u>P 286,361</u>	<u>P 80,830</u>	<u>P 367,191</u>
Balance at August 1, 2006, net of accumulated depreciation	P 274,976	P 7,788	P 282,764
Additions	52,988	4,321	57,309
Depreciation charges for the year	(105,609)	(3,306)	(108,915)
Balance at July 31, 2007, net of accumulated depreciation	<u>P 222,355</u>	<u>P 8,803</u>	<u>P 231,158</u>

10. ACCRUED EXPENSES AND OTHER LIABILITIES

This account includes the following:

	<u>2008</u>	<u>2007</u>
Accrued expenses	P 3,065,413	P 2,452,364
Others	<u>860,523</u>	<u>1,023,186</u>
	<u>P 3,925,936</u>	<u>P 3,475,550</u>

11. DEFERRED GRANTS

Deferred grants represent funds unspent for the period and are applicable to succeeding periods. The funds are to be used only for the specific projects and should be in compliance with the terms and conditions of the grant. Unused funds at the end of the project are returned to the grantors unless otherwise agreed. Certain funds and reflows, therefore, of completed projects may be transferred to the general fund and other contributions upon the approval of the BOT.

Deferred grants amounted to P950,600 in 2008 and P1,260,955 in 2007.

12. GRANTS AND DONATIONS

Grants and donations represent several project funds received from local and foreign funding agencies to carry out specific national programs based on budgets submitted and approved. All related expenses pertaining to such programs have been classified under the Project expenses account in the revenue and expense statement. Grants realized in 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Foreign grants:		
Misereor – Civil Society Advocacy on Constitutional Reform 2	P 5,524,421	P 6,383,242
United Kingdom Charity Commission	829,437	-
Embassy of Japan	363,756	-
Park Won Soon Fund	122,154	-
Management Systems International	88,826	-
Japan Foundation/ACC21	11,655	293,867
World Bank – Japan Social Development Fund	-	902,426
Misereor Study Grant	-	<u>40,818</u>
Balance carried forward	<u>6,940,249</u>	<u>7,620,353</u>
Local grants:		
Peace and Equity Foundation (PEF)	2,836,955	2,675,960
Ateneo School of Government	358,549	812,644
The Asia Foundation	-	3,259,014
Coalition Against Corruption	-	398,458
Makati Business Club	-	<u>396,489</u>
	<u>3,195,504</u>	<u>7,542,565</u>
Donations	-	<u>244,056</u>
	<u>P 10,135,753</u>	<u>P 15,406,974</u>

13. PROJECT EXPENSES

These are expenses funded by various agencies and are broken down as follows:

<u>Project</u>	<u>Funding Agencies</u>	<u>2008</u>	<u>2007</u>
Civil Society Advocacy on Constitutional Reform 2	Katholische Zentralstelle fur Entroicklungshilfe e.V.	P 5,526,287	P 6,383,891
Priority Development Assistance Fund Watch	PEF	1,919,910	2,432,640
Multi-Sectoral Regional Anti-Poverty Partnerships Pilot of NGO Sector	PEF	917,883	-
Assessment Tool	UK Charity Commission	830,065	-
Social Development Week	Embassy of Japan	363,756	2,400
Economic Policy Reform Advocacy III (EPRA III)	Ateneo School of Government	358,549	517,221
Park Won Soon Fund	Park Won Soon	122,154	273,342
Department of Agriculture Budget Monitoring	Management Systems International	88,826	-
Philippine-Japan Partnership	Japan Foundation/ ACC21	11,655	294,581
Bantay Canvass 2007	The Asia Foundation	-	3,259,014
Economic Policy Reform Advocacy II (EPRA II)	Ateneo School of Government	-	295,422
Localized Anti-Poverty Program Phase 2	World Bank	-	800
		<u>P 10,139,085</u>	<u>P 13,459,311</u>

14. PROGRAM EXPENSES

These are expenses funded by the Organization and are broken down as follows:

	<u>2008</u>	<u>2007</u>
Network Strengthening Fund	P 3,000,000	P 2,352,917
Personnel Costs – Programs	1,572,799	1,456,344
Commission on Institution and Capacity Building	1,340,751	596,259
Commission Internal Reform Initiative	651,538	389,958
Democracy Fund	629,500	1,120,317
Board Meetings, National Assembly and Fourth Congress	598,640	1,834,784
CODE-NGO Advocacy	235,041	438,572
Medium Term Philippine Development Plan Advocacy	-	113,822
	<u>P 8,028,269</u>	<u>P 8,302,973</u>

15. OPERATING EXPENSES

The details of operating expenses are shown below:

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Personnel costs		P 2,027,850	P 1,611,609
Professional fees		410,415	587,233
Depreciation	9	152,511	108,915
Travel and transportation		149,544	251,793
Office tools and supplies		93,279	339,392
Utilities		87,354	212,793
Rent		57,412	249,044
Others		533,408	660,841
		<u>P 3,511,773</u>	<u>P 4,021,620</u>

The Organization recognized its liability for retirement benefits to qualified employees based on the provisions of R.A. 7641. The Organization accrued estimated retirement benefits amounting to P741,850 and P529,920 as of July 31, 2008 and 2007, respectively, and are shown under the Accrued expenses and other liabilities account in the statement of assets, liabilities and fund balances (see Note 10). The related expense charged by the Organization to operations is included as part of Personnel costs and is shown under the Operating expenses account in the revenues and expenses statements amounted to P211,930 in 2008 and P319,997 in 2007.

16. ENDOWMENT FUND

The Corpus of the endowment fund of the Organization was set at P147,964,530 through a resolution by the BOT on December 6, 2004. The amount shall be restricted and only its earnings shall be utilized for operations and strengthening of the networks and its members.

The BOT promulgated policies restricting a certain percentage of the annual earnings which must be plowed back to the endowment fund in order to maintain the real value of the fund. The latest policy of the BOT, passed in December 2005, resolved that the reflows to the endowment fund must be at least equivalent to the prevailing annual inflation rate.

For fiscal year 2007-2008, the annual budget of the Organization approved by the BOT indicated a projected reflow of P5.8 million or four (4%) of the total endowment fund. However, since the earning performance of the investments did not turn out as expected because of market factors such as foreign exchange and other market behavior, the expected reflow for the year did not materialize. This was approved by the Executive Committee during the approval of the revised budget last April 16, 2008 and confirmed by the BOT last July 15, 2008.

This account consists of the following:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	P 4,137,995	P -
Receivables	6,045,929	8,338,817
Investments in:		
Loan funds	14,456,083	12,217,376
Bonds	41,238,711	42,779,866
Unit investment trust fund	77,736,208	93,817,881
Property and equipment	<u>315,848</u>	<u>-</u>
	<u>P 143,930,774</u>	<u>P 157,153,940</u>

Previously, the investments in the unit investment trust fund was classified as held-to-maturity; thus the fair value gains amounting to P2,732,919 were reported under the revenues and expenses statements and eventually had an effect on the General Fund account.

As result of the adoption of PFRS, the said investment is now classified as available-for-sale, with the fair value gains recognized directly in the Endowment Fund. Hence, the restated balance of the Endowment Fund as of July 31, 2007 increased to P157,153,940 with a corresponding decline in the General Fund balance to P143,930,744.

17. COMMITMENT AND CONTINGENCIES

There are commitments and contingencies that arise in the normal course of the Organization's operations which are not reflected in the accompanying financial statements. As of July 31, 2008, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Organization's financial statements.

On November 16, 2007, the Organization entered into a lease agreement with PEF pertaining to the use of a portion of PEF's office space for the Organization's operations. The agreement was initiated in order to assist the Organization to further attain operational sustainability. Under the agreement, the lease contract is valid for 25 years with an option to renew the same for another 25 years. The Organization will pay nominal rental fees.

18. TAXES

The Organization is a non stock corporation organized for charitable purposes as contemplated under Section 30 of the Tax Reform Act of 1997 (R.A. No. 8424). Accordingly, it is exempt from the payment of income tax on income received by it as such organization. However, it is required to file an income tax return. Income derived from its properties, real or personal, or from any of its activities conducted for profit regardless of the disposition made of such income should be reported for taxation.

On March 3, 2005, the Bureau of Internal Revenue (BIR) issued to the Organization a five-year certification of registration in accordance with Revenue Regulations No. 13-98. This certification provides the Organization with certain incentives such as (a) full or limited deduction by the donors of their grants and contributions pursuant to Section 34 (H); and (b) exemption for the donor's tax pursuant to Section 101 of R. A. 8424. This certification issued by the BIR is subject to representation and commitments set forth in the accreditation issued to the Organization by the Philippine Council for NGO Certification (PCNC) on October 27, 2004. On October 22, 2007, Executive Order No. 671 was issued where the function of accrediting donee institutions has been transferred from PCNC to various government agencies exercising regulatory functions such as for educational, cultural, research and other activities. This order was repealed by Executive Order No. 720, issued on April 11, 2008, where PCNC has the function of accrediting donee institutions. Further, no corporations, associations, or non-governmental organization (NGO) shall be processed by the PCNC unless it has secured a valid registration with the government agency that exercises regulatory functions over such corporation, association or NGO.

19. PRIOR PERIOD ADJUSTMENT

During the fiscal year 2008, the Organization received liquidation for advances amounting P2,046,835. This amount pertains to advances made during the fiscal year 2006 and prior years for the Democracy Fund grants and the Network Strengthening Fund grants. Consequently, the Organization recognized this amount as a prior year adjustment to the General Fund balance.

20. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Organization is exposed to a variety of financial risks which result from both its operating and investing activities. The Organization's risk management is coordinated with the BOT, and focuses on actively securing the Organization's short- to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Organization does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Organization is exposed to are described below.

20.1 Foreign Currency Risk

Most of the Organization's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from dollar-denominated investments, and euro-denominated grant receivables. The Organization recognized net foreign exchange losses of P1,366,522 in 2008 and P7,536,163 in 2007.

To mitigate the Organization's exposure to foreign exchange risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets translated into Philippine pesos at the closing rate amounted to P46,252,365 in 2008 and P49,446,314 in 2007.

The following table (in Philippine pesos) illustrates the sensitivity of the net result for the year and fund balances in regard to the Organization's financial assets and the US dollar -Philippine peso exchange rate and Euro-Philippine peso exchange rate. It assumes a +/- 24% change and a +/- 14% change of the Philippine peso/US dollar exchange rate for the years ended July 31, 2008 and July 31, 2007, respectively, and a +/-30% and a +/- 17% Philippine peso/Euro exchange rate for the fiscal years ended July 31, 2008 and July 31, 2007, respectively. These percentages have been determined based on the average market volatility rates in the previous 12 months. The sensitivity analysis is based on the Organization's foreign currency financial instruments held at each statement of assets, liabilities and fund balances date.

If the Philippine peso had strengthened against the US dollar and Euro, then this has the following impact:

	2008			2007		
	US			US		
	Dollar	Euro	Total	Dollar	Euro	Total
Revenues and expenses	P 6,681,291	P 3,404,660	P 10,085,951	P 3,846,161	P 610,704	P 4,456,865
Fund balances	6,681,291	P 3,404,660	P 10,085,951	3,846,161	610,704	4,456,865

If the Philippine peso had weakened against the US dollar and Euro, then this would have the following impact:

	2008			2007		
	US			US		
	Dollar	Euro	Total	Dollar	Euro	Total
Revenues and expenses	(P 6,681,291)	(P 3,404,660)	(P 10,085,951)	(P 3,846,161)	(P 610,704)	(P 4,456,865)
Fund balances	(6,681,291)	(3,404,660)	(10,085,951)	(3,846,161)	(610,704)	(4,456,865)

Exposures to foreign currency rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Organization's currency risk.

20.2 Credit Risk

Generally, the maximum credit exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of assets, liabilities and fund balances, (or in the detailed analysis provided in the notes to the financial statements), as summarized below :

	Notes	2008	2007
Cash and cash equivalents	5	P 3,549,092	P 4,673,287
Receivables	6	6,941,129	10,985,784
Available-for-sale investments	7	92,192,291	106,035,257
Held-to-maturity investments	8	41,238,711	42,779,866
		<u>P 143,921,223</u>	<u>P 164,474,194</u>

The table below shows the credit quality by class of financial assets as of July 31, 2008.

	<u>Neither Past Due nor Specifically Impaired</u>			Past Due or	<u>Total</u>
	<u>High Grade</u>	Standard	Substandard	Individually	
		<u>Grade</u>	<u>Grade</u>	<u>Impaired</u>	
Cash and cash equivalents	P 3,549,092	P -	P -	P -	P 3,549,092
Receivables	5,140,481	326,123	-	1,474,525	6,941,129
Available-for-sale financial assets	92,192,291	-	-	-	92,192,291
Held-to-maturity financial assets	<u>41,238,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,238,711</u>
	<u>P142,120,575</u>	<u>P 326,123</u>	<u>P -</u>	<u>P 1,474,525</u>	<u>P143,921,223</u>

This compares with the credit quality by class of financial assets as of July 31, 2007.

	<u>Neither Past Due nor Specifically Impaired</u>			Past Due or	<u>Total</u>
	<u>High Grade</u>	Standard	Substandard	Individually	
		<u>Grade</u>	<u>Grade</u>	<u>Impaired</u>	
Cash and cash equivalents	P 4,673,287	P -	P -	P -	P 4,673,287
Receivables	8,802,162	463,486	-	1,720,136	10,985,784
Available-for-sale financial assets	106,035,257	-	-	-	106,035,257
Held-to-maturity financial assets	<u>42,779,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,779,866</u>
	<u>P162,290,572</u>	<u>P 463,486</u>	<u>P -</u>	<u>P 1,720,136</u>	<u>P164,474,194</u>

Cash in bank and placements are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P250,000 for every depositor per banking institution. Other financial assets are not secured by any collateral or other credit enhancements.

In respect of receivables, the Organization is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

20.3 Liquidity Risk

The Organization manages its liquidity needs by carefully monitoring its cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for 6-month and one-year period are identified monthly.

The Organization maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in cash equivalents. The Organization's receivables are actively monitored to avoid significant concentrations of credit risk.

20.4 Interest Rate Risk

Interest rate risks are managed by active monitoring of the Organization's short and long-term investments. Currently, the Organization has no financial liabilities with floating interest rates.

20.5 Other Market Price Risk

The Organization's market price risk arises from its investments carried at fair value. It manages its risk from changes in market price by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the Organization's investments held at fair value as of July 31, 2008 and 2007 are 11% and 3%, respectively. Their impact on the Organization's fund balances as of July 31, 2008 and P2007 are P8,616,975 and P3,192,222 respectively.

21. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

In order to cope with its operational financial requirement, the Organization shall maintain an investment structure that would generate predictable and stable revenue stream sufficient for at least the minimum requirement of its operations.

Investments in mutual or common or other investment funds that are invested in both fixed and non-fixed income instruments, but the value of which is marked to market and thus fluctuating (such as the PEF-UICF) shall be treated as totally non-fixed income investments.

Funds in any one fund manager or financial institution shall not exceed 40% of the total investment of the Organization. At least 80% of the total investments should be in fixed income investment and only 20% in equities.